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**Inflation fears unsettle US investors**

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# FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY OCTOBER 27 1994

D8523A

## Ford Motor soars to record \$1.1bn profits in quarter

The US's second biggest carmaker, Ford Motor, reported record after-tax profits for the third quarter. Overall, after-tax profits jumped to \$1.1bn, two and a half times their level of a year ago. The biggest factor behind the increase was a \$245m improvement in profits from vehicle sales in North America, which reached \$328m. A 17 per cent rise in sales and lower discounts offered to customers drove the improvement. Page 17. Lex, Page 16; Nissan Motor loses appeal, Page 9.

**Moscow seeks way of limiting oil damage:** Russian officials have flown to the northern region of Komi to head the operation to control an oil spill that environmentalists say could have a disastrous impact on the fragile Arctic environment. Page 16.

**DuPont chemical profits rise 97%:** The world's largest chemical company, DuPont of the US, confirmed the strength of the cyclical upswing in its industry with a 97 per cent jump in third quarter net earnings from its chemical operations overall. Page 17.

**Garzarelli resigns from Lehman:** New York market strategist Elaine Garzarelli has resigned from Lehman Brothers Holdings. An industry source said she was asked to quit as part of cost-cutting measures. She is credited with accurately predicting the 1987 crash.

**Britain urged to curb road transport:** An environmental commission sponsored by the British government has recommended a doubling of petrol prices in real terms, a halving of spending on main roads, and a big increase in subsidies to buses and trains. Page 16.

**Cash-for-questions row grows:** Opposition leaders in the UK stepped up the pressure on the government as prime minister Mr John Major sought to draw a line under the cash-for-questions controversy by meeting Lord Nolan, chairman of the nascent standing committee on standards in public life.

**Bouncing cheques rock Taiwan:** For Taiwan's underground financiers and above-ground brokers, yesterday's bounced cheque radio announcement was bad news - a 10-month high at 0.58 per cent. Page 16.

**Saab Automobile recovery continues:** The Swedish carmaker has announced a SKr24m (\$3.4m) pre-tax profit for the first nine months and said it was on course for its first full-year profit in six years. Page 17.

**Banco Santander is heading for record profits:** This year after its Pta21bn (\$2.2bn) acquisition last April of troubled bank Banco Espanol de Credito. (Banesto) Page 17.

**Brussels in tougher stance on trade:** The European Commission is poised to drop its inhibitions about using countervailing duties as part of a tougher approach to tackle illicit trade practices by third countries. Page 4.

**UK gifts fall sharply:** UK gifts prices lurched sharply lower after the Bank of England announced the results of the auction of \$2.5bn 6 per cent gilt due 2005. The December long gilt futures contract lost 1/4 point to 94 1/4. Page 24.

**France tightens Saudi export terms:** France has confirmed that it has toughened terms for export credit guarantees with Saudi Arabia in the last few weeks in the light of a reassessment of the Middle Eastern government's ability to pay promptly on its guarantees.

**Hijacker frees two crew members:** Two crew members were freed from a hijacked plane in southern Russia, leaving only the captain and the hijacker on board, according to the commercial radio station Ekho Moskvy. The hijacker, believed to be acting alone, has already received \$2.3m ransom in exchange for releasing 23 hostages and is believed to want another \$2m.

**Sharp ahead 55% at six months:** Sharp, the Japanese consumer electronics manufacturer, increased non-consolidated recurring profits - before extraordinary items and tax by 55 per cent in the first six months to the end-September. Page 23.

**Competition hits Chinese airlines:** Chinese airlines are reporting heavy losses in the face of stiff competition from foreign carriers and a sharp rise in operating costs. Page 6; Iberia tries to avert strikes, Page 3; Australia-NZ 'open skies' cloud over, Page 4.

**Anheuser record:** Anheuser-Busch cemented its position as the top brewer in the US during the third quarter, reporting record sales and profits as its Bud Light brand became the country's second most popular beer after Budweiser. Page 20.

STOCK MARKET INDICES		STERLING	
FT-SE 100	2,999.8 (-1.0)	New York headline	5,163.45
Yield	4.23	London	1,634.5
FT-SE Eurostoxx 100	1,300.71 (-1.7)	DM	1,632.5 (1,632.5)
FT-SE All-Share	1,496.8 (-0.1%)	DM	2,412 (2,411.5)
Nikkei	15,746.35 (-14.2)	FF	3,354.8 (3,352.2)
New York headline	5,163.45 (0.0)	SFR	2,838.8 (2,837.7)
Dow Jones Ind Ave	3,850.59 (0.0)	Y	138.415 (138.531)
S&P Composite	462.41 (0.09)	Z Index	90.5 (90.7)
US LUNTIME RATES		DOLLAR	
Federal Funds	4.75%	New York headline	1,492.5
3-mo T-bill	5.13%	DM	1,492.5
Long Bond	8.25%	FF	1,125.5
Yield	8.66%	SFR	1,248.2
LONDON MONEY		DM	1,492.5
3-mo Interbank	5% (same)	FF	1,125.5
Life long gilt future	Dec 95: 92 1/2 (Dec 94: 92 1/2)	SFR	1,248.2
NORTH SEA OIL (Averages)		DM	1,492.5
Brent 15-day (Dec)	\$16.77 (16.54)	FF	1,125.5
Oil Gold		SFR	1,248.2
New York Crude (Dec)	\$31.0 (30.1)	Y	138.415
London	\$30.0 (28.4)	Z Index	90.5

Australia	Sch22	Greece	D850	Mexico	14015	Costa	CR13.00
Belgium	Dm1.250	Hong Kong	HK\$18	Morocco	MD15	S.Arabia	S\$11
Denmark	Dkr5	India	Rs15	Norway	Nkr15	Singapore	S\$1.30
France	Ffr5	Japan	Y150	Philippines	Peso15	South Africa	R12.00
Germany	Dm1.00	Italy	Lira1,000	Poland	Polz15	Spain	Pes25
Greece	Sch22	UK	£1	Portugal	Peso15	Sweden	Skr16
Hong Kong	HK\$18	USA	\$1	Romania	Lei15	Switzerland	Sfr1.50
India	Rs15	Canada	Cdn1	Slovakia	Skor15	Taiwan	Nt\$100
Italy	Lira1,000	China	Y150	Slovenia	Skor15	Turkey	Lira100
Japan	Y150	France	Ffr5	Syria	Syr15	Ukraine	UAH100
UK	£1	Germany	Dm1.00	Taiwan	Nt\$100	USA	\$1
USA	\$1	Italy	Lira1,000	Thailand	THB100	Yugoslavia	Din100
Canada	Cdn1	France	Ffr5	China	Y150		

## France ordered to open two internal air routes

By Paul Betts in London, John Ridding in Paris and Lionel Barber in Brussels

The European Court of Justice yesterday ordered the French government to open up immediately two of the country's busiest and most lucrative internal air routes, ending the monopoly of Air France, the domestic partner of Air France.

The decision is the second defeat in five months for the

French government which has been attempting to delay liberalising its domestic air transport market while it seeks to restructure its loss-making flag carrier.

Last night the government was still seeking to avoid the immediate opening of the routes. Instead, it said it would open them from January next year.

France was forced in June to allow British carriers to fly to Orly airport in the south of Paris after a confrontation with the

British government and the European Commission.

After losing the "Battle of Orly", it appealed to the European Court against another Brussels ruling ordering it to open up the Orly-Marseille and Orly-Toulouse routes by October 27.

But the court rejected the French request to delay liberalising the two profitable routes until later next year and said France "must open the lines and take the necessary measures

to allow this decision to take effect on October 27".

The French reaction could set Paris on a collision course with Brussels over EU air transport liberalisation policy.

Mr Marcelino Oreja, the European Union transport commissioner, yesterday called on France to comply fully with the court ruling. Mr Oreja is understood to be adamant that France cannot be allowed to delay opening up landing rights until January.

"The EU is a community of equal rights and obligations before the law," said one Brussels official. "France is not respecting this principle," he added.

Member states and airlines committed to liberalisation are also angry at the Commission's decision to allow the French government to grant FFR20bn (\$3.9bn) in fresh subsidies to Air France, as well as approving state aid to Olympic Airways of Greece and TAP Air Portugal.

The British government and seven European airlines filed actions in the European Court this month seeking to annul the EU approval for the Air France state aid.

The French Transport Ministry said in a statement that the government was committed to "gradual and managed liberalisation" on domestic routes.

Australia/NZ 'open skies' cloud over, Page 4

## Hussein and Rabin signal new era of co-operation in desert ceremony

# Israel and Jordan end 46 years of hostility

By Julian O'Connell on the Israel-Jordan border

Israel and Jordan signed a formal peace agreement on their barren border yesterday in a desert ceremony with blessings taken from the holy books to mark the end of 46 years of hostility.

"It is not just the end of war but the beginning of new co-operation," Mr Shimon Peres, Israeli foreign minister, told the 5,000 guests. "Let's dream together. We've got the licence."

The treaty demarcates the two countries' borders, resolving disputed water claims and fixing security and environmental arrangements. The two nations will exchange ambassadors within a month and begin ambitious joint economic projects.

President Bill Clinton, who attended the ceremony, praised King Hussein of Jordan and Mr Yitzhak Rabin, the Israeli prime minister, and said the treaty had broken the chains that had kept the two countries in the shadow of strife and suffering.

"Here in this region which is the home of not only both your faiths but mine I say: Blessed are the peacemakers, for they shall inherit the earth," said Mr Clinton, who signed the treaty along with Mr Rabin and Mr Abdul-Salam al-Majali.

Mr Rabin said: "The peace that was born today gives us all the hope that the children born today will never know war between us and their mothers will know no sorrow."

Symbolic gestures of reconciliation between former warriors dominated the open-air ceremony. One Israeli in a wheelchair, wounded by Jordanians in the 1967 battle for Jerusalem, wept as Israeli and Jordanian marching bands rubbed shoulders and played their respective national anthems. An Israeli girl and a Jordanian girl, whose grandfathers were killed in the 1967 war, gave flowers to Mr Rabin, King Hussein and Mr Clinton. The Israeli and Jordanian chiefs of staff together with commanders of the air force, navy and southern fronts shook hands and exchanged gifts.

But even as the ceremony took place, Jewish settlers claimed that Arab gunmen had kidnapped an Israeli youth in the West Bank, as Palestinians opposed to the treaty held rallies across the West Bank and burnt pictures of King Hussein. The Lebanese Islamic extremist Hizbollah group sent mortar fire crashing in to northern Israel and denounced the treaty as "a grand crime and treachery".

Mark Nicholson adds from Cairo: Egyptian leader, Mr Hosni Mubarak, the Egyptian president, said he would con-



Smoke signal: King Hussein of Jordan (left) informally seals his country's peace deal with Israel by sharing a cigarette with Israeli prime minister Yitzhak Rabin after the official signing ceremony

time to do all that he could to combat terrorism, specifically Hamas, but other groups as well.

Mr Clinton added: "I believe that he understands that Hamas is his enemy now and that once you become a partner in the peace process, you have to fight for peace."

Clinton aims to ease Israel-Syria deadlock, Page 7

Continued on Page 16

## Tokyo minister under pressure to quit after war comments

By William Dawkins in Tokyo and Tony Walker in Beijing

Japan's government was plunged into a dilemma yesterday over whether to sack one of its most valuable cabinet ministers or risk a serious row with China.

Mr Ryutaro Hashimoto, international trade and industry minister, came under pressure from China to resign over recent remarks about the second world war.

Mr Hashimoto had told the Japanese parliament, in response to an opposition party question, that it was a matter of delicate definition whether Japan had committed aggression against its Asian neighbours during the war.

China's official Xinhua news agency said: "Hashimoto's remarks thrust him into the centre of controversy over Japan's continued reluctance to accept responsibility for the war, an issue that has ended the careers of two ministers this year."

South Korea said that Mr Hashimoto's remark was regrettable.

If he is obliged to step down, the government will lose a senior figure in holding together the three-party coalition of the conservative Liberal Democratic party, left-wing Social Democratic party and the small centrist New Hanjinger party.



Hashimoto: under pressure from China to step down

Mr Hashimoto, a senior member of one of the LDP's main factions, is the government's toughest trade negotiator and an important influence in economic policy.

If he stays, the risks of a row with China are intensified when relations between the two are already difficult. China's relations with Japan became suddenly precarious several months ago, when they were drawn into a protracted wrangle over the presence of senior Taiwanese offi-

cials at the recent Asian Games in Hiroshima.

Mr Hashimoto irritated China again only last week by meeting his Taiwanese counterpart, Japan's first formal ministerial meeting with Taiwan in 22 years.

The ill health of Mr Deng Xiaoping, the Chinese leader, contributes to inflexibility among Beijing's leaders, unwilling to step out of the official line when a power struggle may be imminent.

Mr Tomiichi Murayama, Japan's socialist prime minister, has sought to defend Mr Hashimoto's war remark, while Mr Kozo Iguchi, the chief government spokesman, maintained yesterday that the comment had been misreported.

The growing queue of Japanese ministers to lose their jobs for their views on wartime history (four in the past eight years) is a testament to Japan's continuing internal divisions over whether it was aggressor or victim.

Mr Hashimoto, 57, on the right wing of the LDP, represents an important minority that feels that Japan's recent wartime apologies should not diminish the honour of its war dead.

He heads an association of bereaved war families and leads a controversial annual visit of LDP colleagues to the Yasukuni Shrine, where war heroes, including some convicted war criminals, are remembered.



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## NEWS: EUROPE

# France ponders superhighway gamble

By John Riddling in Paris

From the network of trains à grande vitesse to the construction of a new national library, France has a penchant for grands projets. Today, the government will consider a project which could rank with the grandest - the creation of a national auto-route d'information, a gallic information superhighway.

Ministers from the relevant departments of Prime Minister Edouard Balladur's government met this afternoon to discuss a long-awaited report from Mr Gérard Théry, a former managing director of France Télécom and an architect of the Minitel project, the teletext system which now has

more than 23,000 services.

Like Minitel at its launch in 1979, Mr Théry's new project is ambitious. His report proposes the establishment of a network of fibre optic cables linking every household by 2015. The aim is to build a national infrastructure allowing the French public and businesses to connect to a network of interactive television, telephone entertainment and data services.

According to Mr Théry, the cost of the infrastructure alone would be between FF150bn (£18bn) and FF200bn (£24bn) by the year 2015. Much of the investment, he argues, should be borne by France Télécom, which should switch resources from copper telephone lines to the fibre optic cables needed

for the superhighway.

"We are behind not only the US, but also our main partner, Germany," he says, citing the Opel project, which will provide fibre optic connections to 1.2m east Germans by 1996.

The message strikes a chord with the French government. But it has yet to decide how far Mr Théry's ambitious proposals will be transformed into reality.

In his letter commissioning the report, Mr Balladur asked Mr Théry in February to "elucidate" the objectives for France in the area of information superhighways. Officials say the study will lead the debate but that it is not a blueprint for legislation.

But Mr Théry's proposals

have also drawn criticism.

"There is little analysis of the role of competitors," says one industry analyst. "Telecoms markets are in the process of liberalisation, but there is no mention of any other players except France Télécom."

The report also skirts the issue of how France's programme should relate to that being studied by the European Commission. In particular, Mr Martin Bangemann, the industry commissioner, is proposing that private companies rather than governments should take the lead in the development of a European information superhighway.

Some EU member states are pressing for national operators to surrender their monopolies

over their national infrastructure. In France, communications and utilities groups such as Bouygues and Générale des Eaux are pressing for increased access to the telecoms market.

More serious, given the central role it has been prescribed by Mr Théry, are the reservations expressed by France Télécom. The state operator is wary of such a bold investment in infrastructure. Mr Marcel Roulet, chairman, says: "Rather than put in place immediately a colossal infrastructure, let us focus on the contents, namely the programmes, which we will be able to offer our future clients."

Behind such sentiments lies

a worrying precedent - the Plan Cable. Launched in 1989, the plan committed FF25bn to create a state of the art cable network. But competition from more terrestrial and satellite TV broadcasters, the high cost of subscriptions and the lack of services have all limited demand. France still has one of the lowest rates of cable penetration in Europe.

"France made just about every mistake in cable that it was possible to make," says Mr Gérard Eymery, chairman of the multimedia operations of France Télécom.

The task for ministers today is how to plot a path so that the next grand projet of the information era is not such a grand failure.

## Italy's ex-communists drawn into corruption probe

By Robert Graham in Rome

Italy's former communists, the Party of the Democratic Left (PDS), is facing a major corruption investigation for the first time. The investigation, which the PDS says is government-inspired, centres on public works contracts awarded in Sicily during the 1980s to communist co-operatives.

Over the last two years magistrates in Sicily have arrested hundreds of businessmen and

politicians on corruption charges relating to distribution of lucrative public works contracts. But this is the first time the PDS has been targeted. Mr Massimo D'Alema, the PDS leader, accused the government of orchestrating a campaign to discredit Italy's largest opposition party.

Milan magistrates have undoubtedly singled out premier Silvio Berlusconi's Fininvest business empire in their anti-corruption inquiries.

Nonetheless, the PDS has always defended the magistrates' independence against accusation of political bias.

The Sicilian investigation has unusual aspects. It stems from an anonymous denunciation and is being pursued by the carabinieri rather than the judiciary. On Friday the carabinieri asked PDS headquarters in Palermo for a list of all officials dating back to 1980, and co-operatives' offices for a list of all public works con-

tracts in the same period. Earlier, Mr Cesare Previti, defence minister, had hinted the judiciary would soon be turning their attention to the "red trail". And at the weekend Mr Giulio Macarini, head of the anti-fascist MSI/National Alliance in the senate, invited the carabinieri to search the PDS' Rome headquarters.

The Berlusconi government believes anti-corruption investigations since 1992 have focused little on the PDS and

its predecessor, the Communist Party of Italy. Ms Tiziana Paranti, now a parliamentary deputy for Mr Berlusconi's Forza Italia, left the Milan magistrates' anti-corruption team because of a disagreement on this issue.

The matter is one of the complaints against Milan magistrates now being investigated by a special team of inspectors from the justice ministry. These complaints mainly concern the handling of inquiries

into the Fininvest group.

Several members of parliament said yesterday in private they did not doubt that most public works contracts in Sicily had been subject to irregularities. But they suggested the move against the PDS was an attempt to ensure government and opposition were seen to be equally entangled in corruption inquiries. This would increase pressure for a political solution to end the investigations.

## EUROPEAN NEWS DIGEST

## Berlusconi eases pensions pain

The Berlusconi government yesterday agreed on a new decree to ease hardship caused by Italy's pension reform proposals in the 1995 budget. Mr Clemente Mastella, the labour minister, said 100,000 persons were affected and the extra cost in 1995 would be 1,600bn (£240bn). The expense would be met from a treasury contingency fund. The cost of the amendments is lower than first projected; this is largely because the government has shifted the biggest burden of the changes on to the 1996 and 1997 budgets. The government decided to soften some aspects of pension reform in the wake of the huge nationwide demonstrations organised by the trade unions.

The main hardship cases concern those who retired early hoping to collect more generous pensions next year by escaping expected benefit cuts. They risked being trapped by a government decision to stop paying pensions for the first six months of retirement to people who retired between September and February 1995. Now those with 37 years' contributions by July will have uninhibited access to their pensions. The government will also remove the penalty applied to those retiring early if their retirement is postponed to 1996 or in the case of less than 30 years' contributions to 1997. Robert Graham, Rome.

## Confusion over rouble support

The deputy chairman of Russia's central bank yesterday said it would no longer intervene on the foreign exchange markets to support the rouble - a policy it followed for much of this year at great cost. "The reserves of the central bank are sufficient only to support five or six days of interventions on Moscow's Interbank Currency Exchange," Mr Alexander Khadruev told an international conference in London. "In August, foreign exchange reserves were \$5.2bn. Now we have \$1.7bn-\$1.8bn left. What do we do next?" However, his comments contradicted those made earlier this week by Tatyana Paramonova, the new head of the central bank, who succeeded Mr Victor Geraschenko when he resigned after the rouble collapsed after the central bank abandoned its support. She pledged: "Foreign currency reserves, of which the Central Bank of Russia is not the only holder, will be used to defend the rouble rate."

The rouble's 21 per cent plunge against the dollar on October 11 sent that week's inflation rate to a one-year high. Inflation jumped to 6.8 per cent, the highest rate since September 1993, up sharply from the previous week's rate of 2.7 per cent. Our Foreign Staff, London.

## Prize-winning law students



The final interviews for the Freshfields European Prize for the Best Business Law Student of 1994 were conducted in Frankfurt on Monday. Pictured from left to right are Mr Robin Farley, managing editor of the Financial Times; (vice chairman of the panel of judges); Mr Oskar Hendrik Behrens, Germany, joint first prize winner; Professor Guido Rossi, Professor of Law, Milan University, (chairman of the judges); Mr Vincent Cog, France, third prize; Mr John Greaves, senior partner of Freshfields; Mr David Chijner, France, joint first prize. The panel of 14 judges assessed the candidates on their knowledge of national law, international private law and European Union directives.

## Zeiss workers fight job cuts

Thousands of German workers chanting "out with the management" yesterday protested against job-cutting plans by optical equipment maker Carl Zeiss and demanded that the company's board quit. Mr Edwin Michler, head of the loss-making company's works council, told 4,500 jeering demonstrators at the Zeiss Oberkochen plant in the southern state of Baden-Württemberg the board was not providing enough information about its plans. Zeiss, once renowned for its paternalistic management, wants to shed 3,000 of 15,500 jobs in plants in east and west Germany by withdrawing from unprofitable business areas to save about DM250m (£102m) by 1996. Mr Michler accused the board of making contradictory statements about the future of various factories.

Zeiss management board chairman Mr Jobst Herrmann announced last week he planned to resign. The group lost DM180m in 1993/94 mainly in east Germany's Jena branch. The management says further losses would endanger the company's existence once funds provided to the Jena company by the Treuhand privatisation agency dry up in 1996. Reuter, Oberkochen.

## Tapie in courtroom battle

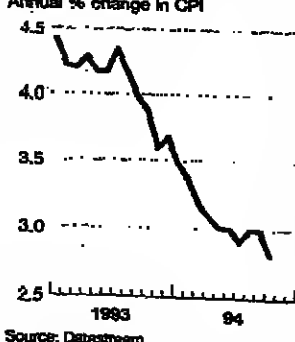
Mr Bernard Tapie, the controversial French businessman and politician, yesterday renewed his legal battle against Crédit Lyonnais, the troubled state-owned bank to which he owes an estimated FF1.2bn (£140m). In a packed courtroom of the Tribunal de Grande Instance in Paris, Mr Tapie's lawyers argued that Crédit Lyonnais should be forced to stick by the terms of a deal it reached with him in March this year to repay his loans over five years. Crédit Lyonnais argues the agreement is void because he did not supply the necessary expert opinions in time to support the high value he claimed for the assets against which the accord was secured. The bank already has custody of many of Mr Tapie's assets, including shares, his furniture collection, his yacht and his house in Paris. Valuations suggest they may be worth substantially less than his debts, with one putting them at FF300m. Judgment is expected in several weeks. Andrew Jack, Paris.

## ECONOMIC WATCH

## German inflation falls to 2.8%

## Western Germany: Inflation

Annual % change in CPI



Source: Destatis

Union bank of Switzerland's Frankfurt office. Mr Reid, noting that the strong D-Mark had deflected any upwards pressure from import prices, expected inflation to continue falling. After hitting 2.3 per cent in January it could reach 2 per cent by late summer.

Denmark's preliminary unadjusted trade surplus was DKr4.05bn (£425m) in August compared with DKr1.7bn in July. The unadjusted trade surplus for January to August fell to DKr2.7bn compared with DKr2.6bn for the previous year. Portugal's retail sales index rose 1.3 per cent in the 12 months to June, the National Statistics Institute said.

# 1984 1994

## THE "CB" BANK CARD: 10 YEARS OF INTERBANKING

It was in 1984 that the French banking community, without posing a threat to the autonomy and personality of its individual members, decided to construct an interbank system for the withdrawal of cash and payment by cards: the "CB" system.

Today, only close technical and financial cooperation enables each bank to offer its customers a universal bank card which is growing ever more reliable: the "CB" card.

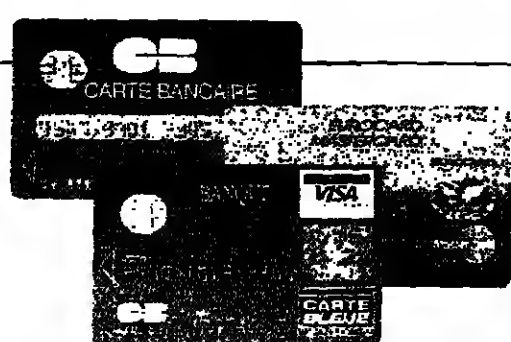
With cards from all banks being accepted in all stores and by all teller machines, both consumers and merchants are free to choose their own banks.

Each and every one thus benefits from competition between banks which remain fully in control of their own commercial policies.

*It is this balance between cooperation and competition which lies behind the success of the "CB" Bank Card.*

### 10 YEARS OF SUCCESS

	1984 (prior to interbanking)			1994 (after 10 years of interbanking)
	3 incompatible networks			1 perfectly interbank system: the "CB" system
	Carte Bleue	Crédit Agricole	Crédit Mutuel	
Number of cards:	5 million	7.5 million	1.3 million	22 million "CB" cards
Affiliated merchants: (including those equipped with EPTs):	275,000	140,000	10,000	530,000
	14,000	13,000	6,000	380,000
Number of payments:	124 million	22 million	4.5 million	1.6 thousand million
Automatic teller machines:	3,700	2,900	600	19,000
Number of withdrawals:	60 million	81 million	17 million	600 million



GROUPEMENT DES CARTES BANCAIRES "CB"



# Challenge to Russian democracy on the waterfront

They drive through the streets in Japanese four-wheel drive vehicles, groups of tough young men with cropped hair and leather jackets - the uniform of the gang enforcers. Welcome to Vladivostok, Russia's famed port on the Pacific, where organised crime gangs are hugely powerful and are battling it out for control of port facilities, companies and retail outlets.

In the elegantly restored Versailles Hotel, in the town centre, visiting businessmen speak of all deals having to go through one or other of the local crime families; of nightly shootings; of a wholly corrupt police force.

This is the menacing setting for a drama of great importance in the development of Russian democracy.

The governor of the Primorye region, of which Vladivostok is the capital, Mr Evgeny Nazdratenko, has been accused of corrupt and dictatorial rule - by local people, by those claiming to be his victims and by external experts. These claims have not, however, been tested in court: they remain a vast, but unproven, indictment of the effectiveness of Russian regional and central government.

On one night last week, Mr Alexander Sviridov, whose Sab corporation was about to open

a diamond exchange in the city, was killed in what the Interfax news agency said was probably a mafia killing. Earlier on the same day, Mr Vladimir Cherepkov, son of Mr Victor Cherepkov, Vladivostok's former mayor, was sentenced to seven years in prison for the theft of a computer from his school.

According to opponents to his rule, these disparate events are connected to the central actor in the drama of Vladivostok, Governor Nazdratenko. Mr Nazdratenko was to have stood for election as governor on October 7 (he is presently appointed by President Boris Yeltsin); but the vote was cancelled by a decree issued by Mr Yeltsin last month.

The vote was called off immediately after the receipt of a report, written by experts from the Russia's Choice party (led by Mr Yegor Gaidar) which said that Primorye was "in the grip of fear": it alleged that Mr Nazdratenko had terrorised political opponents, taken shares with associates in the bulk of the privatised enterprises and - in his vendetta against former Mayor Cherepkov - trumped up the theft charges against his son after dismissing the father from office on false charges of accepting bribes.

According to Mr Igor Sanachev, a former official under Mr Cherepkov, "Nazdratenko had all the means to ensure that he won the election". This is a judgment shared by others who would not give their names. This assumption of intended ballot-rigging or intimidation was the reason the opposition pressed for a

John Lloyd reports from the Pacific port of Vladivostok, where both organised crime and the local governor appear out of control



Vladivostok: Crime families are battling for control of port facilities as well as many of the city's companies and retail outlets

postponement of the election for governor.

Mr Sanachev goes further: cancelling the election deprived Mr Nazdratenko of his only chance to survive - the chance of gaining the people's mandate. Now, he believes, "He has served his purpose and he has to go."

That purpose, according to Mr Sanachev and the Russia's Choice report, was to provide an administration which would allow the directors of the large plants to get rich through privatisation and through misuse

of government funds. For the past three years, according to Mr Sanachev and the Russia's Choice investigators, Mr Nazdratenko and his allies in a group named "PAKT", had so dominated the privatisation process as to ensure that the largest single portion of shares came to them as directors of the enterprises privatised.

The investigators claimed the "PAKT" group had also gained control of the regional administration and systematically suppressed opposition; had, through the administra-

tion, threatened to declare "autonomy" as a Far Eastern Republic in order to cajole more support out of Moscow; and diverted and misused state funding so efficiently that services are only sporadically provided and workers go up to six months without pay.

Mr Nazdratenko was too ill to be interviewed; his deputy governor, Mr Nikolai Pimenov, insisted that corruption was not a problem in the administration and that "autonomy" was simply a desire to agree with Moscow on a special eco-

nomie status for the region, of the type other regions and republics enjoyed.

But according to the former mayor, Mr Cherepkov, the administration is ruthless. Elected as mayor last year on an anti-Nazdratenko ticket, he was physically removed from his office in May and a substitute mayor put in his place.

His son, was arrested and charged with the theft. Last Friday, he received seven years' jail - a savage punishment which, his father said, "all agree was a punishment

not for him but for the Cherepkov family". Mr Cherepkov says that the judge is a close ally of Mr Nazdratenko and squarely blames the governor for manipulating the case.

He is, however, fighting back. He has already collected 20,000 signatures in protest against the sentence and says he will take the case to Moscow, to President Yeltsin.

But among the crime, corruption and violence, business grows. Mr Sergei Frank is the finance director of Fesco, a privatised shipping line which operates a fleet of more than 150 merchant ships. He oversees a company which, he says, is "free of debt with the capacity to improve the quality of the fleet and the efficiency of our operations". Its shares trade at \$90, giving it a market capitalisation of \$146m (compared with an implied valuation when first privatised of \$4.4m), and he expects a net profit of around \$90m this year.

Some 15 per cent of his company is now held by foreign investors, of which Credit Suisse First Boston (CSFB) and Citibank are the largest; CSFB's research note on the company says its prospects are "inspiring".

Mr Frank will not be drawn too far into comments on the region's administration: by most accounts, Fesco has remained free of the "PAKT" network and of the organised crime groups. "The mafia is concerned with cash businesses: we work with bank accounts. The administration, I would say, is neither very competent nor incompetent: we pay taxes, it doesn't interfere."

Mr Frank's cautious view that the administration allows

business to develop is confirmed by Mr Andrew Fox, a young British financier who came to the region two years ago. He has created two investment funds, set up a company which trades on the stock exchange and is investing his own and his partners' money in local enterprises.

"There are some extremely profitable companies here whose shares are increasing in value very rapidly indeed," he says, citing a huge cement plant whose output is greater than that of Australia's.

Mr Fox acknowledges the pervasiveness of the mafia and of violence but, making the same point as Mr Frank, says he runs a cashless business and avoids trouble. "People tell me we could make a lot of money opening restaurants or laundries. We could, but then you're in the mafia territory."

Mr Nazdratenko's continued rule in the region may now be in doubt: the members of "PAKT", bosses of the big local enterprises, are now mainly rich men though many of their workers have no work and little wages and the organisation is riven with infighting.

In the short term, however, disillusion with democracy, perhaps even encouraged by Mr Nazdratenko's hold over the region, may further empower him. Last weekend an election to the Primorye parliament failed when not enough people turned out to vote. Only 20 deputies were elected to the 39-seat parliament, six fewer than the quorum required. Now Mr Nazdratenko will be able to run the region without a legislature until new parliamentary elections, probably next year.

## Iberia tries to avert strikes as financial crisis grows

By Tom Burns in Madrid

Management of Iberia, the Spanish state-owned airline, meet unions today and on Friday in a final effort to avert strikes planned for next month at the financially crippled flag-carrier.

In the midst of the strike negotiations, Iberia is seeking to assure its future viability through a drastic cost-cutting programme and by injecting fresh public funds into the airline. Iberia wants to lower sales

ries by an average of 15 per cent over the next two years and the Madrid government is due to ask authorisation from the European Union for the provision of new capital for Iberia totalling at least Pta125bn (\$1bn).

An Iberia spokesman said yesterday that unless agreement was obtained over the salary cuts and the capital injection, the airline would be technically bankrupt by the spring of next year. Unions have nevertheless called

for strikes over a separate issue that is linked to Iberia's refusal to make up back pay that is due at the end of this month under the terms of a salary agreement dating back to August last year.

Twenty-four hour strikes, which could ground the airline, are initially scheduled for November 3 and 11.

Iberia is on course to lose Pta44bn this year, up from initial estimates of Pta30bn. The salary reductions, along with additional measures,

which include shedding 2,120 jobs from the company's 24,450 labour force, seek to save Pta32.3bn. The back-pay agreement, which Iberia says it is no position to honour, represents an additional cost of Pta17bn.

In an effort to stem its losses, Iberia has renegotiated with Airbus, the European aircraft manufacturing consortium, the Pta109bn purchase of eight A-340 long-range aircraft which were due for delivery over the next three years. Under a

recent agreement Iberia will lease four of the aircraft and will delay the acquisition of the other four.

The airline is now negotiating the cancellation of a second contract, worth Pta69bn, involving the acquisition of eight A-321 aircraft, a smaller, short-range Airbus. "We can't buy them because we can't pay for them, it is as simple as that," an Iberia spokesman said.

Iberia says that unless it has first managed radically to overhaul its spending, the government will be

unable to negotiate new funds for the airline in Brussels. The company was last recapitalised by INI, the public-sector holding company, in 1992 when Brussels authorised subsidies totalling Pta120bn on condition that no more public money be made available to it until 1996.

The company's losses over the past four years, which have in part been linked to an ambitious airline investment programme in Latin America, have effectively wiped out the 1992 capital injection.

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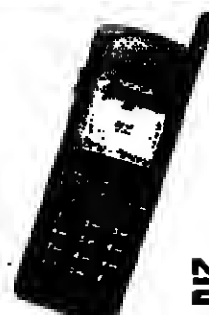
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## NEWS: WORLD TRADE

## Brussels reaches for a tougher trade weapon

By Lionel Barber  
in Brussels

The European Commission is poised to drop its inhibitions about using countervailing duties as part of a tougher approach to tackle illicit trade practices by third countries.

The new policy stems from small but significant changes in European Union trade regulations which have been tacked on to rules to be adopted as part of the Uruguay Round, the General Agreement on Tariffs and Trade global trade accord.

It also fits into a wider pattern of Europe slowly but steadily strengthening its trade weaponry, a process accelerated by the need to harmonise trade rules within the EU as a result of the single market and the Gatt agreement itself.

Sir Leon Brittan, chief EU trade negotiator, outlined the changes last week in a speech to the toy manufacturers of Europe in which he claimed that Europe had been "too shy" in using countervailing duties to combat unfair traders.

"This is no longer the case and the Commission will react quickly to complaints lodged under the new countervailing regulation," he promised.

In future, the Commission intends to adopt a US-style definition of subsidies which will focus on the "benefit" to the company concerned. Present European rules mean that the Commission assesses the "cost to the government" of providing subsidies. Officials say this last definition is harder to calculate and usually leads to a lower valuation of damages.

"We [the Europeans] were always hampered because the Americans had a tougher definition of subsidies," a trade official said.

However, other Brussels officials acknowledged that the EU had rarely used countervailing duties for fear of provoking retaliation against Europe's heavily subsidised farm exports. The Uruguay Round agreement to cut export subsidies in agriculture meant Brussels would be less inhibited about using this line of attack.

In similar vein, the Commission intends to make it easier for individual companies to seek redress against unfair trade in goods, services, and intellectual property in markets other than the EU. In the past, companies were asked to raise complaints through their umbrella industries.

The Commission said the new measures were "absolutely categorically different" from the controversial Section 301 trade weapon which the US has used to prise open markets.

It emphasised that the EU would resort to retaliation, only after exhausting the dispute procedures set out in the new World Trade Organisation. The WTO is due to come into force after the Gatt agreement is ratified, with the target date falling in December.

As part of the Gatt deal reached last December, the EU agreed to strengthen trade weapons, allowing the Commission's preliminary decisions to use anti-dumping or anti-subsidies to become definitive by a simple majority vote

in the Council of Ministers. Previously, Commission action could be blocked by a minority of free-trade leaning countries, led by the UK and Germany.

Also, ministers made it harder for free-traders to block Commission use of safeguard measures against imports with which the EU has preferential trade arrangements.

Blocking minorities are still required to invoke safeguard measures against countries with non-preferential arrangements and in the area of textiles.

## Italian leads the field for WTO job

By Frances Williams in Geneva

Mr Renato Ruggiero, the European Union candidate to head the future World Trade Organisation, is leading the three-man field "by a length", according to diplomats.

Of the 90-odd countries so far consulted, about a third back him. A quarter favour Mr Carlos Salinas de Gortari, outgoing Mexican president, with Mr Kim Chul-su of South Korea not far behind.

Support follows broadly regional lines. Mr Salinas has central and south America solidly behind him, with Washington giving support behind the scenes. Mr Kim, South Korea's trade minister, has most of Asia, including Japan and Australia. Mr Ruggiero, a former Italian trade minister, has western and eastern Europe, with a sprinkling of Mediterranean, African and Asian nations.

The decision has to be made



Mr Renato Ruggiero: ahead "by a length"

by consensus of the 123 members of the General Agreement on Tariffs and Trade. If the three regional blocs hold firm to their candidates, therefore, a decision could be delayed beyond early December when Gatt members are due to meet formally to endorse the final choice. The WTO is due to come into effect on January 1.

Following last week's consultations, conducted by Mr Andr s Szepesi, Hungary's Gatt ambassador, the political battle has shifted away from Geneva. The diplomatic artillery is being trained, first, on the remaining 30 or so Gatt members, mostly small developing nations with no diplomatic representation in Geneva. Many have strong trade and aid ties with Brussels through the European Union's Lom  Convention and are likely to back Mr Ruggiero.

Another line of attack involves securing the second preference votes of trailing candidates. Both the EU and the Salinas camp have hopes of picking up Asian backing, on the assumption that Mr Kim will drop out of the race first.

EU officials believe the Asians would rather support Mr Ruggiero than Mr Salinas, who is vulnerable to criticism that he is too close to the US and too "presidential" to run a technical organisation.

However, trade officials expect Mexico and the US to launch a big diplomatic offensive at the November 14 summit meeting of the Asia Pacific Economic Co-operation forum to win Apec endorsement for Mr Salinas.

● The EU and 46 developing African, Caribbean and Pacific nations are to ask Gatt's governing council for a waiver from fair trade rules for the Lom  Convention when the council meets on November 10.

The long-registered decision to seek a waiver follows two Gatt dispute panel reports which have condemned as discriminatory EU banana import quotas designed to favour ACP countries. A recent Gatt working party report on the fourth Lom  Convention also revealed deep divisions in the world trade body over its Gatt compatibility.

Though Lom  members maintain the convention is consistent with Gatt rules, they are clearly worried by the possibility of further challenges to the banana regime under tougher WTO dispute settlement procedures.

## Australia-NZ 'open skies' cloud over

By Nikki Tait in Sydney  
and Terry Hall in Wellington

A row has broken out between Canberra and Wellington over liberalising the countries' aviation markets. The Australian authorities are refusing to let Air New Zealand start a domestic service within Australia next month.

Under a memorandum of understanding signed by the two in 1992, Air New Zealand was to have gained access to Australia's internal market from November 1. It would have become the third national carrier, competing with Qantas, the government-owned airline in which British Airways holds a minority stake, and Ansett, owned jointly by Mr Rupert Murdoch's News Corporation and TNT.

However, Canberra is claiming that

all the memorandum's conditions have not been met. It cites the lack of agreement on "passenger facilitation" arrangements - the idea was that New Zealand and Australia would become borderless and visa and customs checks would be redundant - and on airline ownership and control issues.

The Australian authorities said they were not abandoning the proposed liberalisation in principle, but "freezing" the situation for the present.

In the short term, the row could make life easier for Qantas, which is due to be privatised next year.

Mr Jim Bolger, New Zealand prime minister, said he was surprised at the way Australia's aviation minister had told New Zealand the agreement was being suspended. "He advised us by fax. That is not the way to do business," he said.

"The decision doesn't stack up," he said.

Mr Bolger said that Australia had pressed for an open aviation market between the two countries, and there were signed undertakings to ensure it was carried out.

Opposition politicians in Australia also condemned the move, arguing that the government had "unilaterally torn up" the agreement and that such behaviour would have broader consequences for Australia in international negotiations.

Senator Warwick Parer, the opposition's aviation spokesman, said "Opponents within Apec [the Asia-Pacific Economic Co-operation forum] now have a new weapon to use to take Australia out of the game, or, at best, damage our standing as a creditable negotiator and reliable signatory."

The dispute means the Australian government's much-vaunted commitment to "open skies" looks increasingly hollow. Deregulation of the domestic market has prompted only one new national carrier to take to the skies, and it quickly went out of business.

On the international front, passenger choices have also become more limited as big US and European carriers have pulled out of Australia, and no new Australian airlines have emerged.

In addition, BA and Qantas are seeking to "co-ordinate" services on the important UK-Australia routes, although this deal has yet to win Trade Practices Commission approval.

## Japan gets taste for food from abroad

Imports have reached record levels, writes Michiyo Nakamoto in Tokyo

Japan said yesterday it would set up a network of information centres to deal with an expected surge in consumer inquiries, and even complaints, about the safety of foreign foodstuffs as food imports reach record levels.

Japan's growing appetite for foreign food

Country	Imports (\$bn)	Exports (\$bn)
Japan	~45	~10
Germany	~15	~5
Netherlands	~10	~5
France	~10	~5
Former USSR	~10	~5
Italy	~10	~5
UK	~10	~5
Argentina	~10	~5

Source: FAO

Even before Japan finalises international trade agreements like the General Agreement on Tariffs and Trade accord, food imports are surging thanks to a strong yen, poor grain harvests in 1993 and a drought this summer.

Three years after Japanese farmers finally lost a fiercely fought campaign to keep the country's markets closed to foreign beef and oranges, a vast range of agricultural products from Kansas steak to Australian carrots and Chinese garlic are entering the country in unprecedented quantities.

This year, Japanese consumers' taste for imported meat, fruit and vegetables has been particularly noteworthy. In the first six months, imports of beef rose 23 per cent, that of citrus fruit 25 per cent, and of vegetables 71 per cent from the previous year, according to

Japan's external trade organisation (ETOR).

The trend is such that Japan has now become the world's largest net importer of farm products, the agriculture ministry proudly proclaims. In the first half of this year, food imports rose by 18 per cent in dollar terms to \$22.4bn, says the ETOR. Grain imports rose by 62 per cent and vegetable rose by 29 per cent.

Last year, agricultural

imports totalled Y32.1bn (\$331m) and fishery imports \$14.7bn, according to finance ministry statistics. The US is by far the single largest supplier, with nearly a 30 per cent share of agricultural sales.

Agricultural and fishery product imports

Year	Imports (\$bn)
1985	~10
1986	~12
1987	~14
1988	~16
1989	~18
1990	~20
1991	~22
1992	~24
1993	~26

Source: Japanese Ministry of Finance

imports spraying insecticide on the grounds that an insect was seen wriggling under a lettuce leaf. Such sightings did not happen when the retailer imported in much smaller quantities than it does today and tend to occur particularly when it complains in public about the difficulties it faces with the authorities.

"We are importing foreign produce increasingly as regular supplies and not just to supplement what is available domestically," says Mr Minoru Tamura, divisional merchandise manager at Dai-ichi.

The growing difficulty of relying on domestic suppliers alone has recently encouraged Japanese retailers to look abroad increasingly for even basic vegetables such as cucumbers and tomatoes.

Climatic changes, for example, are having a tremendous impact on domestic supplies. This year, in particular, the unusually hot summer took its toll of domestic vegetable supplies, leading to shortages and a surge in the prices of certain products.

But one-off natural aberrations aside, the structural changes facing Japanese agriculture are making it imperative that retailers look outside the country for supplies.

The number of farming households in Japan has dwindled from 6.1m in 1960 to 3.8m in 1990, according to the agriculture ministry. Domestic production, it says, has shown no growth in recent years.

What is more, half of those engaged in farming are already more than 60 years old and many of them will not find successors to take over what is more often than not the family business. Last year, only 3,420 out of more than 665,000 new school-leavers took up farming.

The greying of Japan's farming community and the fewer number of hands available has also meant that, in the words of Dai-ichi's Mr Tamura, "Japanese farmers don't like to grow vegetables that are heavy, like cabbage, and those that require intensive labour, such as tomatoes and cucumbers."

The benefits of increased agricultural imports to Japanese consumers have been tremendous. The shortage of certain vegetables as a result of this year's unusual heat would have led to a surge in prices but "imported fresh vegetables helped stabilise the market," says the ETOR. More long-term, opening the doors to imports is helping to bring Japanese food prices closer to international market levels.

Mr Tamura expects more agricultural produce to be imported into Japan as markets are liberated and sees China as a particularly promising source. Self-sufficiency in basic food products is important, he says. "But that doesn't change our policy of buying the best produce from the best source."

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WORLD TRADE NEWS DIGEST

Skoda unveils new family car

Skoda, Czech subsidiary of Volkswagen, yesterday launched its first new car range since its takeover by the German carmaker in 1991. The Felicia small family car will replace the Favorit range, and comes as the Prague government appears close to allowing VW to take a majority 50.5 per cent stake in Skoda. The German company, which bought 31 per cent in 1991 for DM620m (\$413m), is set to take 70 per cent by the end of 1995 with the investment of a further DM780m. VW's abrupt move last year to more than halve its overall investment plan for Skoda by the end of the decade to only DM3.7bn has soured relations with Prague. However, Czech fears about VW's commitment appear to have been calmed by pledges to continue developing a second car range for Skoda, to be launched in late 1996.

Mr Detlev Schmidt, Skoda sales director, outlined ambitious plans yesterday for expanding the company's worldwide sales and distribution network. Dealerships were raised from 1,622 at the end of 1991 to 2,100 two years later and are due to reach 2,500 this year and 4,000 by the end of the decade. The number of markets in which Skoda cars are sold will rise from 20 in 1991 to 57 by the end of this year, and around 98 new ones are under study. It has opened up markets above all in Asia, the Middle East and South America.

The Felicia, developed over the past three years as a far-reaching modernisation of the Favorit incorporating 1,600 new parts, will be the first to be offered with VW engines in some versions. Kevin Done, Prague

Asia-Pacific zone confidence

Senator Bob McMullan, Australia's trade minister, yesterday brushed aside reports that China had rejected the idea of setting a binding timetable under which the Asia-Pacific region would move towards "free trade", saying he was "moderately optimistic" a deal could still be achieved. The proposal will be discussed at next month's summit of Asia-Pacific Economic Co-operation forum leaders in Jakarta. Mr McMullan believed there was a "reasonable prospect" China would back the proposal, after discussions between the leaders themselves in Indonesia. The proposal, as currently mooted would require developed Apec countries, such as the US or Australia, to remove trade barriers more quickly than less developed ones, but would see all barriers across the 18-nation grouping eliminated by the year 2020. Nikki Tait, Sydney

Contracts

■ Alcatel-Alsthom's subsidiary Alcatel Networks Systems Malaysia has signed a FF140m (\$28m) contract for a high-volume data transmission network to the private Malaysian operator Time Telekom. The equipment includes land and underwater fibre-optic cables about 5,000km long. It is due to start service in January and be completed in the first half of 1996. AFP Paris

■ Ipec Constructors, part of Ipec International, has won a \$64m contract to build natural gas pipelines in Thailand - 105km of 28in and 5km of 36in steel pipe. Reuters, Singapore

Safiplast

Invitation to offer to purchase the assets and the business called "Safiplast", operating in the moulding sector mainly used in the automotive industry

Safiplast SpA (entirely owned by EniChem SpA), with authorized and subscribed share capital of Lit. 13,324 million, registered with the Milan Court, Companies' Registry no. 3182, intends to receive and evaluate offers on behalf of a sole party for the acquisition of the assets and the business called "Safiplast" with facilities in Sornaglia Lodigiana (Milan), Spinetta Marengo (Alessandria) and Pisticci Scalo (Metz), which operates in the designing and manufacturing of plastic parts predominantly used in the automotive industry and in other industrial sectors. The assets and the business to be sold achieved a total sales of approximately Lit. 50 billion in 1993. The total workforce was 121 employees at December 31, 1993.

For the purpose of this transaction Safiplast SpA has engaged the services of PASFIN Servizi Finanziari SpA ("PASFIN"), to whom interested parties should direct all enquiries. The relevant persons at PASFIN can be contacted at the following address:

PASFIN Servizi Finanziari SpA  
Largo Richini, 6 - 20122 Milan, Italy  
Tel. +39.2.58274352  
Fax +39.2.58274305  
Mr. E. Morpurgo  
Mr. R. Magagnoli  
Mr. A. Giacomini

The present announcement is directed to limited liability companies which should register their interest in writing to PASFIN no later than November 11, 1994, by letter or fax, and apply for an information memorandum specifically prepared for this sale.

Safiplast SpA reserves the right, at its sole discretion and without assigning any reason, to refrain from providing this information memorandum to any interested party. The information memorandum will be sent after a confidentiality agreement has

been validly signed by an officer or legal representative of the company and returned to PASFIN no later than November 25, 1994.

Together with this confidentiality agreement, interested parties must send a copy of their own financial statements of the last three years, a description of its activities and of the industrial and economic rationale for the investment.

Brokers or agents of any kind must disclose the identity of the company they represent and also provide the aforesaid information on the company they represent.

This represents an invitation to offer but does not represent either a public offer or art. 1336 of the Italian Civil Code. Neither this invitation, nor the receipt of any offers by Safiplast SpA will create, with respect to Safiplast SpA, any obligation or commitment to sell to any bidder and, with respect to any bidder, any right to demand any performance whatsoever by Safiplast SpA (including, without limitation, the payment of any brokerage or advisory fees or expenses). Safiplast SpA also reserves the right to terminate at any time and without any reason or explanation whatsoever any and all discussions regarding the possible sale of the assets and the business called "Safiplast", with absolutely no liability to any third party regardless of the status or stage of such discussions.

Whilst every reasonable effort has been made to ensure that this announcement accurately reflects the Italian text of the announcement appearing in "Il Sole 24 Ore" and other Italian newspapers, on November 27, 1994, in the event of any discrepancy the Italian text shall prevail. This advertisement and the sale procedure are subject to Italian law. In case of controversy related to the above, the Court of Milan (Italy) shall have sole jurisdiction.

Microsoft begins search for Windows partner in China

Microsoft has begun courting local partners to help design and launch the Chinese version of its next-generation Windows 95 software, Reuters reports from Beijing.

The effort to cultivate ties with software developers, industry regulators and the trade press also aims to smooth the entry of the US software giant's blunderbuss entry to China last year.

While Windows has emerged as the de facto standard for four out of every five desktop machines worldwide, Beijing

regulators have refused - often indignantly - to accept the Chinese version of Windows as a standard for China.

Microsoft executives admit having alienated key electronics ministry officials by relying heavily on managers from arch-rival Taiwan who looked down on China's less-developed market and by developing the mainland version, nicknamed P-Win, not in China but in Taiwan, which uses a different form of Chinese characters and highly dis-

similar methods of keyboard entry.

The company said a Chinese partner would be selected by the end of the year to assure that Windows 95 was available in China within six months of the US version.

It also said that Chinese regulators appeared to have dropped their insistence on protecting the mainland market long enough to allow a home-grown platform to emerge, a tacit acceptance of Microsoft Windows as a de facto standard.

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## NEWS: THE AMERICAS

## US orders show modest increase

By Jurek Martin  
in Washington

US durable goods orders rose by a modest 0.1 per cent in September compared with August, mostly because of big new contracts in the defence sector. The month saw a 21.7 per cent increase in orders for military ships and tanks, more than twice the 10.8 per cent advance of the previous month.

Last month's increase in the overall index, according to the Commerce Department, is the second in a row, the seventh this year and the 12th in the last 14 months. New factory orders are 14 per cent above the level of the corresponding month last year, while the third quarter result produced a 1.5 per cent increase on the April-June period.

The volatility in defence orders has produced large swings in durable goods orders in recent months. The August performance was yesterday revised upwards to a 6.4 per cent gain from 6.1 per cent, while in July orders dropped by 3.9 per cent.

Defence buying meant that the transportation component rose 2.1 per cent in September. Excluding this sector, the index dropped 0.6 per cent, after a 2.5 per cent rise in the previous month, with orders for industrial machinery and equipment falling by 2.5 per cent.

New orders for non-defence capital goods, a more reliable indication of the state of manufacturing, rose 0.5 per cent in the month, following a 3.4 per cent increase in August.

The modest rise in durable goods orders was in keeping with the picture of continued robust economic growth, US analysts said yesterday, agencies add from New York and Washington.

"There is still a lot of momentum in the economy," said economist Ms Cynthia Latta of DRI-McGraw Hill, an economic forecasting company in Lexington, Massachusetts.

## Kennedy pulls back from abyss

Reports of senator's political death could be premature, writes Jurek Martin



A jubilant Senator Edward Kennedy gestures to his supporters after his debate with Mitt Romney

US MID-TERM  
ELECTIONS  
November 8

Suddenly it seems that Mr Edward Kennedy, in his 32nd year as a US senator, can look forward to another six in Washington representing his native Massachusetts. He emerged relatively unscathed from his first televised debate with Mr Mitt Romney, his Republican challenger, on Tuesday night. Simultaneously two local polls gave him leads of 12 and 13 points, a vast improvement on last month when his edge had all but evaporated.

The prospect of liberal Massachusetts voting against one of the great liberals in the Senate had been unthinkable. The state and the Kennedy name have been indivisible for generations, with his hold on office not even seriously threatened by the 1968 tragedy of Chappaquiddick when he drove a car off a bridge and a young woman companion drowned.

Yet, however improbably, he had appeared to be in trouble as the Republicans went after the three great liberal scapes they would love to remove from office - Mr Kennedy, Governor Mario Cuomo of New York, and, in the state of Washington, Mr Tom Foley, Speaker of the House.

The senator's particular vul-

nerability stems partly from his political longevity in a year when incumbency is a dirty word and, partly, because, at 63 and overweight, his image as a tired and ageing satyr looked as if it were catching up with him. Mr Romney certainly offered a contrasting candidacy. He is the whole-some 47-year-old venture capitalist son of Mr George Romney, former governor of Michigan who was well in the running for the 1988 Republican presidential nomination before he confessed to having been "brainwashed" into supporting the Vietnam war.

Though a political neophyte, Mr Romney's policy prescriptions - more business and less government - challenged Mr Kennedy's belief in the efficacy of government. Conservative positions have, after all, taken root even in Massachusetts, with Governor Bill Weld, the Republican, not only popular but virtually certain of re-election next month.

Thus, barely two weeks ago, the columnists had begun to foresee Mr Kennedy's demise. From the right, Mr George Will gleefully proclaimed: "Massachusetts may be the Jurassic Park of American politics where the dinosaur of liberalism lumbered on oblivious to the fact that its era has long since past. But the Tyrannosaurus Rex is endangered."

From the left, Ms Ellen Goodman found "a whiff of defeat in the fall air" in a race "that looks more and more like

a beauty contest". She quoted a sad Kennedy supporter saying "he looks like a homeless man in a thousand dollar suit".

What has happened is that Mr Kennedy has begun to fight - and with plenty of assistance from outside the state. President Bill Clinton, whose ratings in Massachusetts are the highest in the nation, has already campaigned with the senator once and plans to do so again. The Kennedy he knew, Mr Clinton said, was not some liberal ideologue but more capable than any Democrat in the Senate of persuading Republicans to come out of the bunker of eternal resistance.

Mr Kennedy was certainly combative in a sharp and often rancorous debate on Tuesday night. When his opponent accused him of making profits on a Washington real estate deal "at the taxpayers' expense", Mr Kennedy shot back, invoking the tragedies that have visited his family.

Mr Romney, the Kennedys are not in public service to make money. We have paid too high a price."

Mr Romney gave as good as he got. When Mr Kennedy charged he had refused healthcare to part-time employees, the Republican said the Kennedy family had done the same at one of its businesses.

The post-debate scorecards mostly pointed to a draw, but, as one Boston political seer put it: "If Kennedy didn't lose, he won, and if Romney didn't win, he lost."

## Cuba reforms extend to consumer goods

By Pascal Fletcher in Havana

Cuba's hard-pressed consumers, still digesting the novelty of farm produce markets opened on October 1, received a further dose of free market economic reform yesterday when the government authorised a similar system to sell scarce manufactured and consumer goods.

Individuals and local state industries will now be able to sell goods directly to the public with traders, not the state, setting prices. A government decree said the goods would be offered through a network of shops, street markets and

other authorised public vending points. "People will be able to sell absolutely everything," a commentator on state-run Radio Rebelde said. He gave as examples furniture, mattresses, household articles such as brooms and window blinds, spare plumbing parts and clothes.

As with the farm markets, vendors will have to pay a tax on sales.

The markets selling manufactured and consumer goods - which, like the farm markets, will operate in Cuban pesos - indicate a further easing of the state's grip on economic production. They will also create more opportu-

nities for self-employed private manufacturers and crafts people. These were authorised to operate on a limited scale late last year and had started selling their wares at a small number of street market sites, which are expected rapidly to increase in number.

Chronic shortages of even the most basic consumer articles have been a headache for Cubans for years. Problems worsened after 1990 when local manufacturing was hit by the collapse of Cuba's preferential trade relations with the former Soviet bloc. The continuing US trade and financial embargo applied an additional squeeze.

Cubans turned to the black market, where an army of clandestine seamstresses, tailors, plumbers and mechanics sprung up.

The farm produce markets have been well received by Cubans. Not only have shoppers been able to stock up with food staples, but prices are well below those in the black market.

Authorities say the farm markets are easing food shortages and have dealt a blow to the black market. But they add it will be six months or more before they will be able to assess whether the markets have stimulated food production, particularly by small farmers.

## AMERICAN NEWS DIGEST

## ID card warning for California

All Californians would have to carry identification cards to prove their citizenship if voters pass a proposition to cut services to illegal immigrants, Governor Pete Wilson says. In an interview with the San Francisco Chronicle yesterday, Mr Wilson rejected the idea that people born in the US might resent having to carry an ID card. "If you are a legal resident you have absolutely nothing to fear," Mr Wilson told the newspaper. "It has nothing whatsoever to do with eye or skin colour. You are reasonably suspect if you cannot provide documentation that you are in the country legally."

The card is not part of Proposition 187, a measure on the November 8 ballot that would deny illegal immigrants in the state public schooling and most health and welfare benefits. However, Mr Wilson said he believed it would be needed to enforce Proposition 187 if the measure were approved by voters.

Mr Wilson, who has emphasised Proposition 187 would not affect emergency healthcare, has made support for the proposition a plank in his re-election platform. His Democratic opponent, Ms Kathleen Brown, opposes it.

Mexico has protested over the proposition, saying its implementation would damage US-Mexican relations. AP, San Francisco

## US emergencies turned away

Some US hospitals are still refusing to treat emergency patients unable to pay for medical care, despite a federal law forbidding the practice of "patient dumping". A consumer group, Public Citizen's Health Research Group, reported yesterday that 86 hospitals in 23 states were cited by the federal government for refusing to treat emergency patients for non-medical reasons during 1993 and the first quarter of 1994.

Ms Joan Stieber, co-author of the report and a lawyer with the health research group, said the organisation believed many incidents of patient dumping went unreported and that no state or region was exempt. Under a law passed in 1986, hospitals are forbidden to deny care for non-medical reasons to any emergency patient or woman in labour. "Enforcement is only touching the tiniest tip of the iceberg," said Ms Stieber. "On the whole, we think this is a pretty consistent problem across the country." AP, Washington

## Canadian inflation to stay low

Canada's economic growth appears to be continuing at a vigorous pace, but the underlying rate of inflation is expected to remain low, the Bank of Canada said in its autumn review.

"Economic activity expanded at more than 5 per cent in the first half of the year, and the economy appears to be continuing to grow at a vigorous pace," the bank said. "It is estimated that, in spite of the rise in capacity utilisation, the economy has room to expand at a growth rate above potential for some time."

The underlying rate of inflation had remained in the lower part of the "inflation-control target band" and was expected to remain there, the bank added. Excluding indirect taxes and movements in the food and energy components, the 12-month inflation rate had remained at about 1.7 per cent, the bank said, using data to September 23. Economic activity expanded at an annualised rate of 6.4 per cent in the second quarter. "Over the balance of the year, output should grow at a solid, although somewhat slower, pace." Reuters, Ottawa

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## NEWS: INTERNATIONAL

## INTERNATIONAL NEWS DIGEST

## N Korean army faces changeover

The arrival in France for medical treatment of Marshal Oh Jin-u, North Korea's defence minister, may provide an opportunity for Mr Kim Jong-il, the country's new leader, to assert his authority over the military and curb its possible opposition to his rule. It is believed that the visit of Marshal Oh, who ranks second in the North Korean hierarchy behind Kim, indicates his condition has become serious. He is the chief representative of the conservative old guard that created North Korea in the late 1940s.

The North Korean defence ministry, in a rare show of independence last month, publicly rejected a US demand for special inspections of suspected nuclear facilities, which Pyongyang subsequently accepted as part of the accord signed last week.

Marshal Oh would normally be replaced by General Choe Gwang, chief of the general staff. But Gen Choe is believed to be an opponent of the recent US-North Korean agreement to settle the dispute over Pyongyang's nuclear programme. Analysts believe Mr Kim may appoint General Oh Guk-ryol as head of the military. Gen Oh, seen as Mr Kim's chief military supporter, advocates a more professional military by reducing the role of political officers. *John Burton, Seoul*

## Builder plans to replace bridge

Dong-Ah Construction, the builder of the Seoul bridge that collapsed last Friday, plans to construct a replacement at its own expense. The offer of a new bridge, which will cost \$100m (£117m), is meant as a public apology for the accident that killed 32 persons, according to Mr Choi Won-suk, chairman of Dong-Ah, South Korea's third biggest construction company. Dong-Ah, which had a net profit of Won20bn (£15.4m) on sales of Won1.53bn in 1993, also plans to donate Won10bn to Seoul to maintain existing bridges in the city. *John Burton, Seoul*

## S Africa election reforms urged

The Independent Electoral Commission, which managed South Africa's national and regional poll last April, has recommended to the government it urgently implement a set of electoral reforms. The move comes amid rising concern that South Africa's forthcoming local elections may have to be postponed because of logistical difficulties. In a formal report released yesterday the IEC admits that poor organisation and planning had forced it to jettison many of its safeguards against possible voter fraud and ultimately included large numbers of votes not properly verified in its final results. *Mark Suzman, Cape Town*

## Australian inflation at 1.9%

Australia's consumer price index rose 0.6 per cent in the September quarter, bringing the annualised inflation rate to 1.9 per cent. The figure represented little change from the previous quarter when the CPI rose 0.7 per cent, and the annualised rate stood at 1.7 per cent. It was also in line with market expectations, although some nervousness was generated earlier in the week when the Reserve Bank of Australia increased interest rates by one percentage point. The move was interpreted as a pre-emptive strike designed to keep inflation under control.

Despite the reassuring figures, bond prices weakened yesterday, with some analysts suggesting the inflation figures may now deteriorate. They noted that the severe drought gripping east coast farm areas has so far been largely deflationary as farmers "de-stock", but could have inflationary consequences as produce supply tightens. *Nikki Tail, Sydney*

## Chinese airlines struck by bruising losses

By Tony Walker in Beijing

Chinese airlines are recording heavy and unprecedented losses in the face of stiff competition from foreign carriers and the effects of a sharp rise in operating costs.

The Economic Information Daily newspaper reported yesterday that China's airlines were in a "deep valley" with six out of the country's nine main carriers reporting losses in the first eight months of the year.

The slide in Chinese airline fortunes risks slowing anti-

ipated surging demand for new aircraft, with Boeing and Airbus having geared up to supply hundreds of aircraft over the next 15 years.

Economic Information Daily quoted aviation officials as calling for stricter controls to be placed on new aeroplanes and new airlines. China had approved some 20 airlines by early this year, but has instituted a freeze following a series of crashes in 1993.

The newspaper said that in the first quarter Chinese airlines operating domestic and

international services from Beijing airport carried just 35 per cent of passengers. An increasing proportion of Chinese preferred foreign carriers to local airlines.

Chinese airlines suffered a serious drop in traffic on the lucrative Hong Kong route with load factors plummeting 10 percentage points to 60 per cent in the first quarter compared with last year's average. China's competitors were flying near to capacity.

A historical change occurred in China's aviation market late in 1993 when a sell-

er's market that had lasted for two decades turned into a buyer's market. Economic Information Daily reported.

China's airlines reported 20 per cent increases in passenger traffic in the past two years, and this rate of growth was expected to continue for the next four years, slowing to 15 per cent towards the end of the century.

The newspaper blamed the unification at the beginning of the year of China's exchange rate resulting in an effective 50 per cent devaluation of the yuan for some of the airlines'

woes. The devaluation added dramatically to costs, including leasing and fuel which rose by 25 per cent this year. Other factors included a credit squeeze instituted in mid-1993 and aimed at slowing an overheating economy.

The paper also blamed the poor safety record of Chinese airlines for the fall-off in passenger numbers. China experienced at least four serious air crashes in 1993 in what proved a disastrous year for Chinese aviation.

Aerospace companies, which have made heady forecasts of

demand, may now be obliged to revise their estimates. Boeing had predicted China would purchase some 800 aircraft at a cost of \$40bn (£25.3bn) by the year 2010, while Airbus had estimated a more conservative 620 aircraft.

A slowdown may also affect foreign airlines' plans to become involved in joint ventures in China. The world's big carriers have been scouring China for opportunities since Beijing announced early this year that it was opening its aviation sector to foreign participation.



Sri Lanka's prime minister, Mr Chandrika Kumaratunga, (left) offers condolences to Mrs Sirima Dissanayake, widow of murdered presidential candidate Gamil Dissanayake. The two women will contest the presidential election on November 9.

## Asian economic growth forecast at 7.3% in 1995

By Jose Galang in Manila

Asia will continue to outpace global economic growth next year, even though its projected expansion in gross domestic product of 7.3 per cent will be slightly lower than this year's 7.8 per cent, according to latest estimates by economists at the Asian Development Bank.

China is forecast to record a 9 per cent growth rate, down from 11.5 per cent this year. That figure is topped only by Vietnam's 9.6 per cent expected growth.

Collectively, the region's newly industrialising economies (Hong Kong, South Korea, Singapore and Taiwan) are expected to turn in a slower

growth of 6.9 per cent, from this year's 7.1 per cent.

The developing economies of South-East Asia (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) are forecast to advance by a higher average rate of 7.7 per cent, from this year's 7.3 per cent, according to the ADB.

Mr Malcolm Dowling, assistant chief economist at the Manila-based ADB, attributes the continued expansion mainly to "the modest recovery" in global production that will push up overall demand.

Mr Dowling presented these forecasts at the opening yesterday of a three-day ADB workshop on Asia's economic outlook. Representatives from the

World Bank and the International Monetary Fund also presented studies pointing to a "broadening" and "acceleration" of the nascent recovery in industrial economies.

Economists from the three institutions said the current turbulence in world financial markets will not jeopardise the continuing growth in Asian economies. Mr Dowling cited particularly the Asian economies' strong savings and investment rates that have been instrumental in achieving steady growth records.

The ADB study also noted the "phenomenal" rate of net resource flows (including grant aid) to the developing countries of the region.

## Thai business chief named as foreign minister

William Barnes reports on fears of conflict of interest

Thailand's new foreign minister, whose appointment was confirmed yesterday as part of a cabinet overhaul, is an unelected businessman whose corporate involvements are prompting criticism that he is vulnerable to conflicts of interest.

Mr Thaksin Shinawatra, aged 45, is one of the country's wealthiest and most dynamic businessmen. His telecommunications empire has thrived on his ability to win government contracts and franchises, and is expanding rapidly in Thailand and the region.

He has been appointed because Mr

Chamlong Srimuang, founder of the Palang Dharma (Buddhist force) party, has risked seeing his political creation break apart by replacing all of his party's 11 ministers in an attempt to boost its popularity. The five coalition parties are permitted to fill their cabinet allocations largely as they see fit.

Mr Wichit Surapongchai, former president of Bangkok Bank, picks up the important transport and communications portfolio; this has caused less comment because he is seen as a

professional business manager brought in to deal with a specialist field.

Mr Chamlong himself takes up formal political office as a deputy prime minister - for the first time since he was swept into power as a corruption-fighting governor of Bangkok in the 1980s.

There are fears Mr Chuan Leekpai, prime minister, will have to use all his diplomatic skills to prevent the unpredictable Mr Chamlong driving the five-party coalition into crisis as

he tries to score political points over this government's final two years of its term.

Mr Thaksin has resigned as chairman of his Shinawatra group in favour of his wife. But each retains 25 per cent of the holding company, Shinawatra Computer & Communications, which has a market capitalisation of \$4.2bn (£2.58bn).

"If we interpret the constitution by the letter of the law, he is OK. But the spirit of the law is that you don't

want a person to hold high position in order to benefit from it. This is a problem that could explode at any time," said Prof Likhit Dhitravegindra of Thammasat University's political science faculty.

Mr Thaksin's predecessor as foreign minister, the former intelligence chief Mr Prasong Soonthil, is furious and vengeful after being dumped by his party leader for a fresh face.

Diplomats, however, say that Mr Prasong's foreign policy was often obscure if not muddled, and argue that Mr Thaksin has an opportunity to sharpen up Thailand's handling of foreign affairs.

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## Airlines resume flights to India

By Shiraz Sidhwa in New Delhi

Eleven airlines yesterday announced resumed flights to India after the World Health Organisation declared most of the country plague-free. Air India, the international carrier, has been allowed to resume its services to Dubai and Doha, while Emirates (Dubai's airline), Gulf Air and Kuwait Airways have also resumed their Indian services after nearly a month.

But Abu Dhabi, Sharjah and other members of the United Arab Emirates, as well as Pakistan, Bangladesh and some Russian and central Asian countries, have yet to

lift the ban on flights.

The Indian government expressed relief when a team of WHO experts indicated no evidence existed that plague had been transmitted in Bombay, Calcutta, Madras or Delhi, and these cities could be considered plague-free. But the UN organisation has recommended continued precautions while travelling to Surat in Gujarat and Beed in Maharashtra.

The government has confirmed only 55 plague deaths, but health organisations hope authorities will heed it as a warning to improve India's inadequate health system. Worst hit by the plague panic are exports of fresh food.

Officials admit that exports of perishables have fallen sharply, though no figures are yet available. India depends on the Gulf countries for 70 per cent of its exports of fruit, vegetables, meat, and seafood, which last year totalled \$177m (£118m), and were expected to reach \$200m this year. One estimate calculates the ban by Gulf countries has cost India more than \$6m a day.

Last year, trade between the Gulf states and India exceeded \$3bn, including \$2m-worth of Indian exports. "We have lost over a month of business due to the plague scare," says Mr Bilal Lone, who imports non-ferrous metal scrap from the

Gulf to India.

The Indian Commerce ministry is optimistic that trade with the Middle East will return to normal with the restored air and sea links. "The specific impact of the plague scare on trade will be clear when the figures for October are released next month," a ministry official said.

Travel experts estimate cancellations of up to 40 per cent of tourism arrivals this year, the plague scare having coincided with the peak tourist season. "India's plans to increase tourism arrivals from 1.62m in 1993 to 5m by the year 2000 have been badly hit," a tourism ministry official said.

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## Clinton aims to ease Israel-Syria deadlock

By Mark Nicholson in Cairo

President Bill Clinton's brief visit today to Damascus, only the second undertaken by a US leader in 20 years, is rich in symbolism. But, as he stressed yesterday, it may prove light on substantive moves to resolve enduring differences between Israel, seeking a full peace with its neighbour, and Syria, which wants a full return of the Israeli-occupied Golan Heights in exchange.

"I expect we will make some progress to narrow the gap," Mr Clinton said of today's talks with President Hafez al-Assad, Syria's leader. "But I do not expect it to produce a dramatic breakthrough."

Expectations for Mr Clinton's visit are running high in Damascus. "There's a popular feeling here that this could unjam things. The average Syrian seems to believe this trip is about the most significant thing that could happen just now," a western diplomat in Damascus said.

But Mr Clinton may come bearing some Israeli concession on the Golan, or may grant Mr Assad a long-sought bilateral concession, such as

erasing Syria from the list of states viewed in Washington as sponsors of terrorism.

Mr Clinton has indicated neither is likely. "Terrorism is still an issue between our two countries," he said yesterday. "But the most successful way to end terrorism in this part of the world is to have a comprehensive peace." His implicit message is that such prizes as removal from the terrorist list and further improvements in US-Syrian relations can come, but only once the peace with Israel is sealed.

Mr Clinton's arrival in Damascus, a late addition to a regional swing built around yesterday's Jordan-Israel peace ceremony, will be received in Syria as the greatest possible acknowledgment of Mr Assad's regional stature and Syria's importance to any lasting peace. "The symbolism of that cannot be helped, even if it will not on its own produce the goods," a diplomat said.

The trip will also underline what the tireless Middle East shuffling of Mr Warren Christopher, US secretary of state, has made plain: that the US will act as guarantor for any Syrian deal with Israel. Damascus, ever wary of negotiating alone and directly with Jerusalem, has always needed this assurance, adding to it repeated demands that Washington lean more heavily on its Israeli ally. "The US should take stands that put more pressure on Israel to push the peace process," Mr Farouk al-Sharaa, Syria's foreign minister, said recently.

Mr Clinton's trip will affect the atmosphere surrounding the Syrian-Israeli talks, the real progress of which both sides, aided by the supremely tight-lipped Mr Christopher, have kept under wraps. It comes amid ground-breaking gestures from Syria suggesting the climate for these talks is warming. Mr al-Sharaa recently gave an unprecedented interview to Israeli television. He also met US Jewish leaders during a recent US trip.

The most tangible result of Mr Clinton's visit, diplomats say, could be for him to express Syria's ultimate willingness to embrace a full peace with Israel, and what that peace would entail, more explicitly than Mr Assad is so far prepared to do publicly. Possibly, Mr Clinton may be able to announce plans for

eventual direct talks between Mr al-Sharaa and Mr Shimon Peres, his Israeli counterpart, a direct encounter long sought by the Israelis.

Otherwise, the substance of Israeli-Syrian negotiations will continue under US auspices and through further US shuttles in and out of Damascus. Egyptian officials and some diplomats in the region believe these talks may be only months away from a basic agreed deal. Egypt's President Hosni Mubarak has spoken of a deal by Christmas.

If so, then Mr Assad and Israel's Premier Yitzhak Rabin may be awaiting the most propitious timing to make the political moves to clinch agreement. Mr Assad's desire for a "durable, comprehensive peace" makes it unlikely he would commit himself to a deal with Israel if that with the Palestinians looked to be failing.

Mr Assad's desire for a "durable, comprehensive peace" makes it unlikely he would commit himself to a deal with Israel if that with the Palestinians looked to be failing.



Assad: regional stature

## PLO-Hamas strikers revile peace treaty with Jordan

Protests greet Hussein's special role, Julian Ozanne reports

The Palestinian strikes and rallies held across the Israeli-occupied West Bank and in Arab East Jerusalem yesterday were in protest at the Israel-Jordan peace treaty, which recognises Jordan's historic custodial role over Islamic sites in Jerusalem.

In a rare display of Palestinian political unity, Mr Yasser Arafat's Palestine Liberation Organisation called a strike jointly with the Islamic resistance movement Hamas, closing schools and businesses to mourn yesterday's signing ceremony.

In Hebron, up to 2,000 Palestinians took to the streets, shouting anti-Jordan slogans and burning pictures of Jordan's King Hussein. Israeli troops fired tear gas and bullets to disperse Palestinians stone-throwers in the West Bank city of Nablus.

Palestinians are outraged at the treaty, which recognises King Hussein's special role in Jerusalem's Islamic sites and in negotiations over the future of the Holy City sacred to Muslims, Christians and Jews. The king bases his claims to Jerusalem on assertions that his Hashemite monarchy is directly descended from the Prophet Mohammed, said to have ascended to heaven from Jerusalem's Temple Mount. The Dome of the Rock is said to mark the spot and is the third holiest site in Islam.

The king opened a speech to the Jordanian parliament last Saturday defending the peace treaty by calling for prayers and peace "in the truthful Hashemite Arab

prophet and on his household".

Jerusalem, he said, "remains a trust with the Hashemites who are resolved on its patronage and reconstruction and on the supervision of its holy sites." The Jerusalem controversy is the latest sign of a long history of tension and animosity between King Hussein and Mr Arafat. King Hussein, whose country includes 2m-3m Palestinians, once

challenged Mr Arafat for leadership of the Palestinian cause; the PLO believes the king has not yet given up his ambition to influence the West Bank.

Under UN resolutions, Arab East Jerusalem, including the old city, is defined as occupied territory seized by Israel in 1967. Palestinians want Jerusalem as their future capital. They accuse Israel and Jordan of trying to de-politicise the fate of Jerusalem and believe King Hussein has become a willing partner of Israel to maintain its occupation. Israel claims Jerusalem as its "eternal and indivisible capital".

The PLO and Jordan last week made rival appointments to the post of Mufti, the highest Islamic authority in Jerusalem. In a speech last Saturday, which angered Palestinians, King Hussein said: "We will never relinquish our religious responsibilities towards the holy sites".

At the United Nations, the PLO also appealed for international support to overturn the parts of the Jordan-Israel peace treaty relating to Jerusalem, saying it violates UN resolutions and the Israel-PLO peace accords.

For decades, Palestinians have accorded Jerusalem a special symbolic reverence. Photographs of the Dome of the Rock hang on the walls of almost every PLO leader. In spray-canned graffiti across the Gaza Strip the Dome is often depicted, symbolising the long-held Palestinian dream of a return to their cherished homeland.

Mr Arafat, who was not invited to yesterday's ceremony by either Jordan or Israel, on Tuesday blasted the Israel-Jordan agreement. "Jerusalem is the capital of Palestine, whether they like it or not. If they don't like it, they can drink Gaza sea water," he said, quoting an Arab proverb meaning he did not care if his statements were accepted or not.

"I say to them: Jerusalem is not for sale," he averred.

Hamas, usually at loggerheads with the secular PLO, has joined Mr Arafat's condemnation of the deal, saying it opens the door for Israeli domination.

## US rivals clash over telecoms deal with PLO

By Rousa Khalaf

Two US telecommunications giants both claimed this week they had clinched exclusive agreements with Palestinian officials to provide phone services in the West Bank and Gaza Strip, in a sign of disarray within Mr Yasser Arafat's Palestine Liberation Organisation, which has taken over administration of the areas.

MCI said it had signed a contractual agreement with Patelco, a private company implementing an exclusive 25-year telecommunications concession for the Gaza Strip and the West Bank, to provide international telephone network capacity.

Mr Lawrence Kodacovi, senior vice-president of MCI, said Bezek, the Israeli telecommunications company, had transferred the telecoms network to Patelco in a ceremony on Tuesday attended by Mr Arafat.

But Palestinian officials based in Tunis said Mr Arafat was to announce an AT&T deal to develop a telecommunications network in the same area, in an agreement timed to coincide with the visit of President Clinton to the region.

Both American companies are insistent their agreements will give them exclusive rights to the Palestinian telecoms market.

Patelco would run and operate the telecommunications system in all Palestinian areas, Mr Kodacovi said, and MCI would provide the network capacity to link the Palestinian areas with the rest of the world.

The agreements were negotiated without public bidding or monitoring by international consultants.

The confusion between the rival accords reflects a scramble for contracts among senior PLO officials, and underlines concerns voiced by the US and international donors about the need for more transparency in awarding commercial contracts.

The principal shareholder in Patelco is International Technologies Integration, a small American telecom consultancy owned by a Lebanese engineer, which has joint ventures with MCI in Lebanon, Syria and Kuwait.

According to a contract seen by the Financial Times, ITI last October won a 25-year concession signed by Mr Arafat exclusively to build, operate and exploit the domestic and international communications network in the West Bank and Gaza.

But a rival group of PLO officials based in Tunis said they had signed an agreement with AT&T Network Systems International, a subsidiary of AT&T based in the Netherlands, to "help develop and modernise the telecom network in the territories" under control of the Palestinian Authority.

Mr Maher El Kurd, a senior PLO official in the office of Mr Farouk Kaddoumi, chairman of Pedar, the Palestinian institution charged with monitoring and planning public-sector investments, said the AT&T agreement "will lead to an arrangement under which AT&T will build, operate and transfer a complete network to

the Palestinian Authority to support 225,000 subscribers".

Mr Cees Steijger, head of corporate communications at AT&T Network Systems, said the "co-operation agreement" would lead to a contract and AT&T and the Palestinian authority would work together to set up feasibility plans to develop the project.

AT&T is now reviewing financing options requiring several hundred millions of dollars.

According to Mr Steijger, AT&T's agreement will include operating the international network, which is what MCI says its own agreement with Patelco stipulates.

A senior western diplomat said Mr Ron Brown, US commerce secretary, had written to Mr Arafat expressing his concern over the award of the telecoms contract, and asking Mr Arafat to institute a process of open public bidding.

### The confusion between the rival accords reflects the scramble for contracts

The rival agreement by AT&T raises the stakes in the battle over the telecoms contract and will fuel further controversy.

ITI says the contract it has, and the agreement with MCI, are irreversible; it had started on implementation of a multi-year expansion plan worth \$140m with more than \$30m of improvements in the first year alone.

Mr Pierre Rizk, a Paris-based businessman who has been a key negotiator of the ITI deal, insisted this week that the rivalry between the two US companies was now over and that the international telephone business would go exclusively to MCI.

Mr Rizk denies any financial interest in any of the companies involved.

Mr Rizk said the transfer from Bezek to Patelco meant that last October's 25-year concession to ITI "was legally binding on Israel, the Palestinian Authority and all the telecommunications companies worldwide".

Patelco had now bought the transmission equipment, existing switches, cables, carriers and network remodels from Bezek, Bezek refused to comment.

Mr Rizk confirmed there had been US pressure on the Palestinian Authority about the award of the contract but said it was a private business matter which should not concern Washington as the deal involved no foreign aid.

AT&T's Mr Steijger said he was surprised by MCI's announcement this week. "I don't know what to make of it," he said.

"But the US government policy as given to us for American companies doing business in the Palestinian territories lays down two principles: accountability and transparency, and the vehicle for implementing these two principles is Pedar."

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**ING BANK**



## NEWS: UK

# Way clear for deregulation of gas market

By Michael Smith

The government seems set to introduce a bill to deregulate the domestic gas market next parliamentary session after Mr Tim Eggar, energy minister, yesterday outlined proposals for a pilot scheme in 1996 and full competition in 1998.

Although Mr Eggar said he could not confirm the inclusion of legislation in the Queen's Speech to parliament next month, the positive tone of his remarks left little room for doubt that he believes the cabinet will support the tabling of the bill. The Queen's Speech is used to set out legislation which the government intends to propose in the next session of parliament.

Asked by an MP in a committee meeting if his deregulation proposals could be implemented on time without a bill in the next session, he replied: "Theoretically yes, but you need a lot of theory and not a lot of practice to reach that conclusion."

A likely cabinet decision to go ahead with deregulation has been assisted by a growing consensus, which includes British Gas and consumer groups, that competition would be beneficial.

Independent gas suppliers have predicted that prices could fall by 10 per cent as a result of deregulation. Ms Clare Spottiswoode, gas industry regulator, told MPs at a session of the trade and industry committee of the House of Commons yesterday that anyone who paid a bill on time in the new regime was likely to be a winner in price terms.

British Gas said it is likely to raise its prices, including standing charges, by about the rate of inflation at the turn of the year. This ends speculation that the standing charges, now just under £37, would rise to £42 to reflect costs.

The company promised considerable discounts for consumers who agreed to pay bills by direct debit and hopes to double the number on such

Coal traders are to complain to the European Commission about government "support" for the gas industry which they say amounts to discrimination and contravenes competition rules.

The Chamber of Coal Traders, representing 2,500 members, highlights three areas of concern. It claims British Gas is receiving about £65m (£102.7m) of support from the Department of Social Security. It says this is because the department pays gas bills for claimants of state benefits who are in arrears.

The chamber says it is not possible for claimants who use solid fuel to get the same help. It alleges that the market is distorted as a result.

The second complaint arises from a system of pricing under which householders pay the same amount for gas supplies throughout Britain.

The chamber says this is possible because of British Gas's near monopoly position and also distorts competition. British Gas is already planning to change the system.

The chamber is also concerned about the pricing formula used by Ofgas, the gas industry regulator. Schemes from 3m. Confirming plans for more cost-reflective pricing, Mr Richard Giordano, chairman of British Gas, said there would also be a change in the middle of next year to reflect transportation charges. This could increase or decrease prices in some areas by 2 per cent.

Mr Eggar told MPs that competition would start with a regional pilot "perhaps in an area the size of a county with 500,000 people" in April 1996. A second pilot involving 2m people, possibly in several areas, would follow in 1997.

Mr Eggar said he hoped to encourage small suppliers as well as large into the market, suggesting for example that coal-bed methane gas could be provided to individual villages.

# Environment commission's aim dismissed as 'technically impossible' Carmakers scorn efficiency target

By John Griffiths

The motor industry, which is still recovering from one of its steepest recessions, yesterday rejected as "technically impossible" one of the main recommendations from the Royal Commission on Environmental Pollution - that the fuel efficiency of the typical family car should be increased by 40 per cent over the next 11 years.

It also insisted that the commission's depiction of roads jammed with up to 45m vehicles by the year 2025 - double the current number - was misleading.

"We agree that car ownership will increase, but this does not necessarily mean that usage will do the same," the Society of Motor Manufacturers and Traders said.

Mr Roger King, the society's public affairs director, said: "In the next century we will see more families with perhaps three cars for different reasons - an electric vehicle for city use, an inter-city car and a weekend leisure vehicle. But they will not be all on the road at the same time."

The industry also expressed concern at the commission's proposals further to modify the Inland Revenue's new company car taxation regime "to remove the incentives for environmentally damaging behaviour".

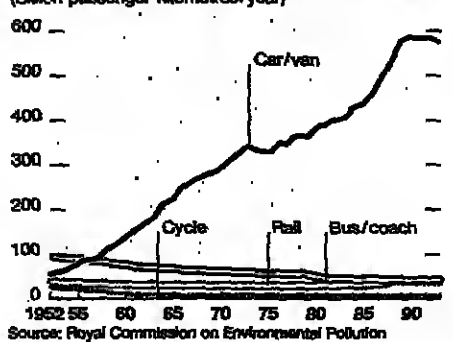
Under the existing regime, the tax liability a company car driver incurs on private use of the car falls by a third if more than 2,500 business miles are travelled a year; and by a further one-third above 18,000 business miles.

Business cars now account

Traffic jam: the increase on the roads

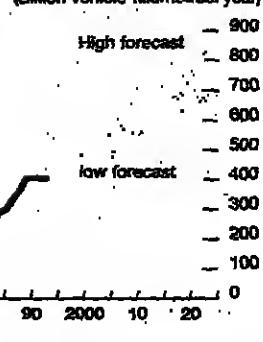


Movement of people: growth in surface transport



Source: Royal Commission on Environmental Pollution

Road traffic growth



The report was welcomed enthusiastically by environmental groups, which saw it as potentially a breakthrough in their campaign for greener transport policies. Greenpeace described it as "a watershed in the battle against subsidised pollution", and the Council for the Protection of Rural England said the report showed "vision".

The report was also welcomed by campaigners for cleaner air and a reduction in asthma.

for 70 per cent of the UK new-car market and their sales are entirely responsible for the current market recovery. Any significant shrinkage of the business car market could have adverse implications for

now widely linked to transport pollution. After some notorious battles over new road schemes, the report's emphasis on the "best practicable environmental option" is certain to encourage green groups to take a more aggressive stance over future plans. The Royal Society for the Protection of Birds pointed out that 160 sites of special scientific interest were directly at risk from the government's road programme, and wildlife was suffering from polluting emissions.

on the sale of super unleaded petrol because of its high content of benzene and other octane-boosting "aromatics" linked with cancers.

Ford results, Page 17

# Irish Republic ready to shift on territorial claim

By Philip Stephens and David Owen at Westminster

The government of the Republic of Ireland has told its British counterpart privately that it is willing to amend the most sensitive element of its constitutional claim to Northern Ireland.

But draft amendments suggested by Dublin to article 2 of the constitution - which defines Northern Ireland as part of the republic's "national territory" - do not go far enough to meet the UK government's demands.

The amendments have been tabled as part of the intense negotiations on a framework document to provide the basis for a political settlement for the province.

Mr Albert Reynolds, the Irish prime minister, has signalled that he is ready to submit to a referendum changes to the less controversial article 3 of the constitution, which also refers to the jurisdiction claimed by the republic.

Publicly, the Dublin government has strongly resisted the suggestion that it might change article 2, which states simply: "The national territory consists of the whole island of Ireland, its islands and territorial seas."

British officials hope Dublin's private acceptance that article 2 is no longer inviolate will help break the deadlock in the talks on a framework document.

Mr John Major, the UK

prime minister, told Mr Reynolds earlier this week that an overall deal acceptable to Northern Ireland's moderate supporters of union with the rest of the UK would be impossible without a radical revision of the constitutional claim.

But it is understood the two possible revisions so far suggested by Dublin do not meet the central unionist demands that Northern Ireland be recognised as outside the "national territory" and that they no longer be defined as members of the "Irish nation".

These indications of Dublin's position came on the eve of the first House of Commons debate on Northern Ireland since the republican and loyalist cease-fires.

During the debate, ministers may be pressed on last week's move by Mr Major to separate plans for a Northern Ireland assembly from wider talks on the province's status.

The move appeared to irritate the government of the republic, although Mr Major said on Monday that it would be a "misreading" to suggest he was trying to detach one from the other.

If questioned today on whether the "nothing is agreed until everything is agreed" formula governing political talks on the province still applies, ministers are expected to say that the basis upon which talks began in 1991 will stay in place unless and until the participants decide otherwise.

# Citicorp offshoot plans lifeline for Names at Lloyd's

The prospect of traditional Lloyd's Names becoming a rare - if not endangered - species heightened yesterday, our Insurance Correspondent writes. Plans were unveiled that would allow increasing numbers to trade without being liable down to their last collar stud.

Citicorp, the subsidiary of US bank Citicorp, said it had devised an innovative scheme to allow existing Names to convert from unlimited to limited liability without breaking

Lloyd's rules. The proposals could lead to a further reduction in the number of traditional Names, the individuals whose assets have historically supported the Lloyd's insurance market but have been hit by heavy losses in recent years. The number of Names actively underwriting has fallen from a peak of 32,000 in 1989 to fewer than 18,000 this year.

Mr Peter Middleton, Lloyd's chief executive, said yesterday that most Lloyd's Names may well convert in

the next few years - though the higher returns offered by unlimited liability would continue to attract a minority.

"There will be a strong caucus - perhaps 3,500 - who will opt to remain exactly as they are, on unlimited liability," he said.

Citicorp's proposals await approval by Lloyd's but have been drawn up in consultation with members' agencies, who look after the interests of Names, and officials at the Ins. ce market.

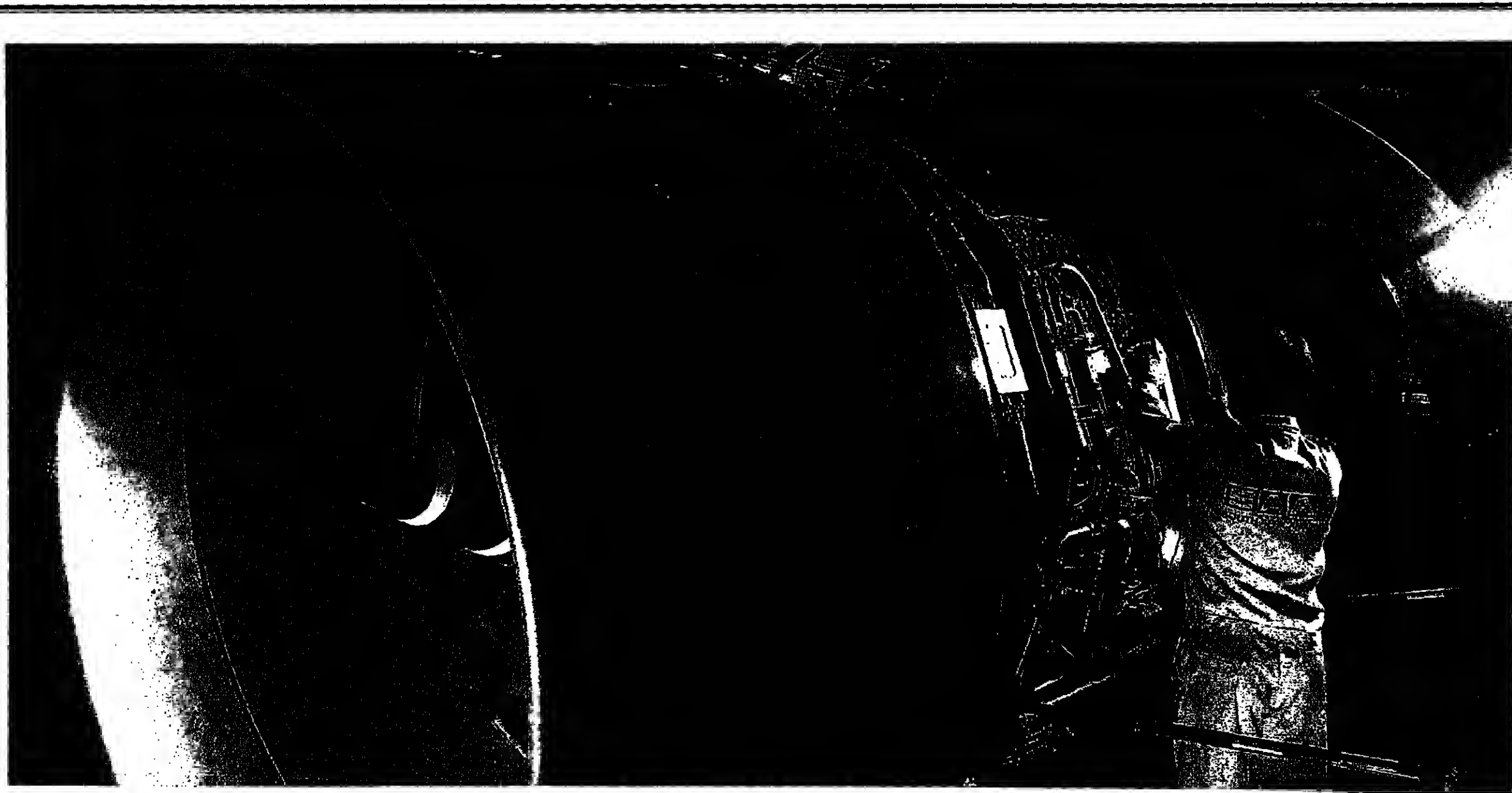
They will be considered by Lloyd's on November 4.

Main features include a "reinsurance" agreement by which Names would transfer liabilities outstanding on policies they have underwritten previously to an individual company, or "NameCo". That would not isolate them completely from past exposures but offer some protection.

Lloyd's has agreed that NameCos should hold a minimum of £100,000 at the insurance market compared with

the £15m required from companies who have been set up in the past few years to inject corporate capital into the market.

To make the scheme more attractive, Citicorp has arranged for some of those adopting it to buy a separate reinsurance policy which will have the effect of increasing their funds at Lloyd's - allowing them to underwrite more business. If many Names transfer to limited liability, the process could become unstoppable.



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## UK NEWS DIGEST

## US companies join N Ireland cable venture

A north-south divide is emerging in the battle for the UK's largest cable television franchise to be advertised so far - the \$30,000 homes of Northern Ireland. TeleWest, the largest UK cable company is already planning a bid for the Northern Ireland franchise.

A consortium being put together by TeleWest - a 50-50 joint venture between TCI of Denver, the largest cable operator in the US, and US West, the regional telephone company - is likely to include both Mr Tony O'Reilly's Independent Newspapers of Ireland and RTE, the national broadcaster for the Republic of Ireland. Mr O'Reilly's Irish Independent newspaper is already involved with a consortium, Princes Holdings, which operates cable networks in Cork and Limerick in the Republic and a microwave broadcast service in the west of Ireland. The other shareholders are TCI and United International Holdings, an American cable operator. UIH is also likely to be involved in the Northern Ireland bid.

The TeleWest consortium will be challenged by a consortium that includes Ulster Television, the independent television company for Northern Ireland. The company is believed to be talking to Comcast, the quoted US cable operator which is the eighth-largest cable group in the UK.

## 'Cottage' holidays take off

Big holiday companies are starting to market holidays in what the industry calls 'cottages' to customers outside the UK. The 'cottages' can be anything from a converted English barn to a Scottish castle, and such holidays have boomed among UK residents in recent years.

In August Thomson, which owns the UK's largest overseas tour operator, charter airline and travel agency, bought Country Holidays, the UK's largest holiday cottage letting company, for about £34m (\$53.7m). The purchase could transform the holiday industry, bringing sharper marketing to a sector that has traditionally been poorly organised. Mr Geoff Cowley, marketing manager of Country Holidays, says nobody is sure of the size of the market for UK self-catering accommodation. Country Holidays has 5,000 properties on its books while English Country Cottages, the second-largest company, has 2,800. Neither 'cottage' company owns property. They take bookings and collect bills on behalf of private owners in return for commissions of between 21 and 25 per cent. Customers from outside the UK account for only 5 per cent of the two companies' business, and both companies are actively marketing 'cottages' overseas.

## First oil from new field

BP and Shell said yesterday that they had produced the first oil from the Atlantic west of Shetland, a group of islands to the north of Scotland. In a six-week extended test of their new Foinaven field, the well flowed at up to 20,000 barrels a day with an average flow of 17,800 barrels. On completion of the test a cargo of oil was taken to BP's refinery in Rotterdam.

In addition to being the first oil produced and saved from the area, it was the first production from 500 metres under water, and the highest flow rate achieved in the area. Foinaven and its neighbouring Schiehallion field are among the biggest new oil and gas discoveries in UK waters. The two wells could account for 30 per cent of the UK's known reserves, with production amounting to a similar proportion of the UK's total output when they are fully developed. In August Shell and BP placed contracts with a consortium of McDermott/Golar-Nor for a floating production system for the first phase of Foinaven development.

## Murder inquiry reopens

Police have reopened their investigation into one of the most notorious murder cases of recent years. Rachel Nicholl, aged 23, was stabbed to death in 1992 while walking with her two-year old son on Wimbledon Common, an expanse of public open space in the south London suburbs. The file on the case at Scotland Yard was closed last month after the collapse of a murder case brought against Mr Colin Stagg, who lived near the scene of the crime.

Police tactics towards Mr Stagg were described by the trial judge as "something without precedent and frankly a disgrace". An undercover policeman sent Mr Stagg letters and a tape in an attempt to encourage him to reveal sexual fantasies.

## Nissan Motor loses appeal

Nissan Motor, the Japanese car manufacturer, yesterday lost its appeal against a ruling in the High Court that it should pay £2m (\$3.5m) to Nissan UK, its former importer and distributor. The Court of Appeal upheld the ruling made in the High Court in March last year that Nissan Motor had entered into an agreement with Nissan UK to pay the £2m as an incentive for taking 12,700 Bluebird cars shortly before they went out of production in 1990. Nissan Motor had denied that such an agreement had been negotiated with Mr Octav Botnar, the Nissan UK chairman.

## Mercedes close to engines deal

Mercedes-Benz is poised to sign an agreement under which it will become the official engine supplier for Mr Ron Dennis's McLaren grand prix racing cars next year. Subject to final detailed negotiations today, the deal will be announced in Stuttgart tomorrow. The engines, now supplied to the Swiss Sanber racing team, are designed and built in the UK by Imor Engineering of Northampton, in which Mercedes has a 25 per cent stake.

## London dockland railway to be sold

By Charles Batchelor, Transport Correspondent.

The London Docklands Light Railway, which links the City of London with the East End, is to be franchised to a private-sector operator in 1996 before being sold completely seven years later.

Announcing plans for privatisation of the 15-mile railway, Mr John Gummer, environment secretary, said yesterday the government would also seek bids from private consortia to build an extension costing between £100m and £130m under the Thames to the south-east suburbs of Greenwich and Lewisham.

The decision to franchise the railway before selling it reflects in part its large losses. The railway expects to earn revenues of only £7m this year against operating costs of £18m, but is expected to move into profit during the period of the franchise. A declining level of subsidy is likely to be maintained until then. The railway, which uses driverless trains, carried its first passengers in 1987, but its early years were dogged by technical problems.

A new management team which joined in December 1991 has modernised the railway's signalling, improved reliability and built a new extension to the east. In the past 12 months the number of passengers has risen by 40 per cent to 45,000 a day.

The railway is expected to prove attractive to franchise bidders, including possibly its own management. Unlike routes which are to be sold from the national British Rail network, it will be offered as a fully-integrated railway, owning its own track and operating its trains.

Bidders for the 2½-mile Lewisham extension will be invited to pre-qualify through the official journal of the European Union early next month and a shortlist will be announced in January.

## Municipal reform in chaos, says Labour

By John Authers

Sir John Banham, chairman of the commission created by the government four years ago to review the structure of municipal administration, yesterday announced the abandonment of plans to abolish six county councils. They were Cambridgeshire, Cheshire, Cumbria, Kent, Lancashire and Oxfordshire.

The announcement signals a decisive rejection of the government's original preference that county councils should be replaced by unitary authorities combining the powers of counties and districts in all but "exceptional" circumstances. At the moment county and district authorities exercise different powers over the same areas. District councils have lobbied hard for the end of the two-tier structure through abolition of county councils. The districts would then become unitary authorities with all the powers. Of the 17 counties for which proposals have been

Sir John Banham

Born 1940; educated Charterhouse and Queen's Cambridge; Divisional director, Reed International, 1965-69; Managing Director, 1969-83; Head of Audit Commission (specialised spending watchdog) 1983-87; Director-general, Confederation of British Industry 1987-92.

trict authorities exercise different powers over the same areas. District councils have lobbied hard for the end of the two-tier structure through abolition of county councils. The districts would then become unitary authorities with all the powers. Of the 17 counties for which proposals have been

announced so far, 10 will keep the two-tier system - at least in part. Proposals for all the other English counties will be given to the government by the end of the year.

Opposition politicians claimed the government's policy was in chaos. Mr Frank Dobson, local government spokesman for the opposition Labour party, said: "The present position is yet another monument to government incompetence. Turnout and trouble, all for nothing - a useless distraction."

However, the commission has proposed a change to the structure of Hampshire, with Portsmouth, Southampton and the New Forest district coun-

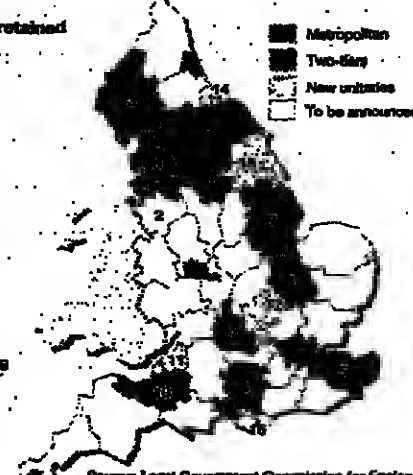
## Confusion in the counties

Two-tier counties retained

- 1 Cambridgeshire
- 2 Cheshire
- 3 Cumbria
- 4 Hampshire
- 5 Kent
- 6 Lancashire
- 7 Leicestershire
- 8 North Yorkshire
- 9 Oxfordshire
- 10 Somerset

New unitaries

- 11 Avon
- 12 Bedfordshire
- 13 Buckinghamshire
- 14 Cleveland
- 15 Flintshire
- 16 Isle of Wight



Source: Local Government Commission for England

cils all given unitary status on their current boundaries.

In Buckinghamshire and Bedfordshire, Sir John recommended more radical change,

with both county councils being abolished and most of the lower-tier district councils being given unitary status on their current boundaries.

## RAF wants Boeing helicopters instead of Westlands

The Royal Air Force is pressing for its current fleet of transport helicopters to be replaced using only the latest version of the US-made Boeing Chinook, our Defence Correspondent writes. It does not want the mixed fleet of Chinooks and Westland EH101 aircraft which was originally proposed. This is the latest of a

series of military procurement decisions which pits off-the-shelf US products against European-developed alternatives.

The European Future Large Aircraft is fighting the Lockheed C-130J Hercules for a £900m (\$1.42bn) RAF order, and the US Apache helicopter is set against the Euro-

pean Tiger in the British army's £2bn attack helicopter competition.

The RAF will argue for the Chinook when the £1bn order for up to 40 support helicopters goes to the Ministry of Defence equipment committee next week. However, the army, also represented on the committee, is thought to favour a mixed

fleet of helicopters to give versatility.

The Chinook can lift 10 tonnes against the EH101's 4.5 tonnes, but the EH101 is smaller and more agile with better night operating capacity, making it more suitable for some army missions.

Westland, the helicopter maker owned by GKN of the

UK, has been hoping for an order for about 25 EH101s from the RAF.

The order would be an important endorsement from the ministry which would help the helicopter's export prospects. Westland is negotiating to sell the anti-submarine warfare version of the EH101 to several Gulf states.

## Taiwan power bid decision in January

Nuclear Electric, the state-owned generating company, expects to receive a decision by the end of January on its joint bid to build a power station in Taiwan, David Green writes.

The bid, based on the design of the proposed Sizewell C plant in eastern England, has been made in conjunction with Westinghouse of the US, which collaborated over the design of Sizewell B.

The companies are being given until mid December to decide whether to revise their joint bid and are now carrying out a reassessment of costs.

Executives are also answering technical and commercial questions posed by Tai Power, the Taiwanese generating company.

Two other bids are being considered, from Asa Brown Boveri, owned by Combustion Engineering of the US, and from Framatome of France.

Sizewell B, Britain's first pressurised-water reactor power station, is expected to start generating electricity in mid December and to achieve its maximum output of 1,188MW by March.

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## TECHNOLOGY

Scientists are closer to finding a cure for the cold, writes Sheila Jones in a series on drug discoveries



A vaccine for the common cold is a distant dream but a cure may be closer to hand. Scientists have tried for years to fathom the mysteries of the many viruses that cause the cold.

There have been several false dawns. The discovery in 1955 of the structure of the rhinovirus - of which there are at least 120 out of about 200 cold viruses - was heralded as the breakthrough that might produce a vaccine. Some researchers said at the time, however, that its very complexity meant a vaccine was probably impossible.

Yet, it was a breakthrough. It meant scientists could begin to think about designing a drug that might stop the virus.

Nearly 10 years on, there is no new drug that does more than alleviate cough and cold symptoms. Drugs are becoming more sophisticated, but none prevents infection.

Now, there is another breakthrough. In March this year, Agouron Pharmaceuticals, a small US company, announced it had discovered the atomic structure of rhinovirus 3C protease (RVP), an enzyme that plays a vital role in the life cycle of the rhinovirus. The RVP enzyme helps the virus to do its work as it enters the body (through the nose, eyes or mouth), producing the symptoms associated with colds.

"It is probably the most important breakthrough since the structure of the virus was discovered in 1955," according to Jeffrey Almond, microbiology professor at the University of Reading, one of the main centres of research in the UK into the common cold. Agouron believes the discovery will enable it to design a drug, atom by atom, that will lock into the enzyme and inhibit or stop rhinovirus replication. It sounds familiar, but there are some differences.

First, every virus and rhinovirus would need its own vaccine because each is minutely different. Agouron believes the enzyme structure is common, or similar, to at least the rhinoviruses. If it can design a drug to fit the RVP enzyme, it could reach half of all colds.

Second, Agouron, in common with several other pharmaceutical companies, is working with computerised drug design. Computing tools can provide important leads in the search for the right atom to create a molecule that locks on to a virus. The chances of hitting the right combination are greater because scientists can try out any number of combinations more swiftly than they

## European cough medicine market

Brand	Manufacturer	%
Benylin	Warner Lambert	30.0
Covonia	Thornton & Ross	9.4
Boots own-label	Boots the Chemist	6.5
Actifed	Wellcome	5.3
Sudafed	Wellcome	3.9
Vicks	Procter & Gamble	3.9
Meltus	Seton Healthcare	3.8
Thylix	Intercare	2.7
Robitussin	Whitehall Laboratories	4.6
Veno's	SmithKline Beecham	2.0

Source: Euromonitor Market Direction from trade estimates



## Manufacturers' shares

Manufacturer	%
Warner Lambert	19.1
Mars	12.7
SmithKline Beecham	11.5
Crookes/Boots	8.8
Zyma Healthcare	5.6
Procter & Gamble	5.4
Marion Merrell Dow	5.2
Wellcome	4.3
Reckitt & Colman	4.2
Intercare	1.9

could 10 years ago.

Agouron says it hopes to have a drug in the development phase by next year, although it will be "some years" before such a drug would be on the market. Drugs go through years of clinical trials before they are allowed on to the market, whether for prescription or over-the-counter sale. Initially, Agouron plans to develop agents for treatment of chronic obstructive pulmonary disease, such as emphysema and chronic bronchitis.

Agouron is not alone in the race to design a drug to kill the cold. Agouron provided Eli Lilly, the US company, with the RVP structure in exchange for commercial rights to anti-HIV agents produced jointly by the two companies.

Also in the picture are Japan Tobacco, the main contributor of funds for Agouron's antiviral research, and Syntex, a US

subsidiary of Roche of Switzerland, which is also contributing. JT has contributed \$80m (£55m) to the collaboration in the past three to four years, in exchange for a licensing and profit-sharing arrangement. Any other company, Agouron acknowledges, could establish the enzyme structure and design a prophylactic drug.

Yet all researchers are aiming at an extremely difficult target, says David Tyrell, a

virologist who ran the common colds research unit at Salisbury in the UK for 26 years until its closure in 1990. "You need to produce something that will kill the virus but won't also damage the delicate nerves and tissue in the nose or cause irritation that is worse than the cold," says Tyrell. He points to the early optimism about interferon in the mid-1980s. The first experiments showed that it stopped

the cold but it produced unacceptable side-effects, including nasal damage.

As the world waits for a cure, the OTC coughs and colds industry is constantly upgrading and refining its products. Nearly two-thirds of cold sufferers seek self-medication in a global market worth about \$3.5m a year.

The trend in the industry is to improve what is already available. Most cough and cold remedies contain an analgesic, such as paracetamol or aspirin, plus one or more active ingredients to control specific symptoms. These include decongestants such as ephedrine and pseudoephedrine and sedative antihistamines, such as diphenhydramine and promethazine, to suppress coughing and to dry a runny nose.

The industry has sought to target specific symptoms, to improve tastes and delivery systems, to speed up and prolong treatment effectiveness, and to produce better and safer packaging.

The industry has also produced new mixes with drugs coming off prescription and on to the OTC market. Two years ago, the antihistamine Tavist, developed by Sandoz of Switzerland, switched from prescription to OTC and is now an ingredient in the company's cough and cold remedies. Boehringer Ingelheim, which leads the German market, says it is focusing on switching more prescription-only drugs to the OTC market following the move to OTC of its Bisolvon cough treatment, which sells about DM245m (£102m) annually, DM45m of which is prescription-based.

Crookes Healthcare, the UK division of Boots Healthcare International, launched ibuprofen, the analgesic, anti-pyretic (lowers temperature) and anti-inflammatory drug onto the OTC market in 1993 as Nurofen. This year, the company produced a new formulation - Nurofen Cold & Flu tablets - the first specific cold treatment sold OTC containing ibuprofen. The product's other active ingredient is the decongestant pseudoephedrine. P&G is also launching in the US a patented formula in its Vicks range which is ibuprofen-based and contains a decongestant.

Procter & Gamble's recent repackaging of some products

is typical of moves under way elsewhere in the industry. P&G's new Accutip packaging for its cough products restricts the amount of liquid leaving the bottle, and SmithKline Beecham has recently repackaged its top-selling Contac line of cold remedies. Johnson & Johnson has introduced the Tylenol FastCap, a bottle cap that opens with a slight twist. It is aimed at elderly or arthritic people and households without young children. Improved delivery systems in recent years include easy-to-swallow gelatin capsules and day/night tablets of drowsy and non-drowsy cold formulas in one package.

The market, dominated globally by a handful of international groups, is also trying to produce better-tasting remedies, such as SmithKline's range of Beecham powders for hot drinks containing honey and lemon. Reckitt & Colman, of the UK, now produces a range of its leading Lemsip brand, with drowsy and non-drowsy formulas, capsules and flu strength. The company says more Lemsip products, with known pharmaceutical agents, are being developed.

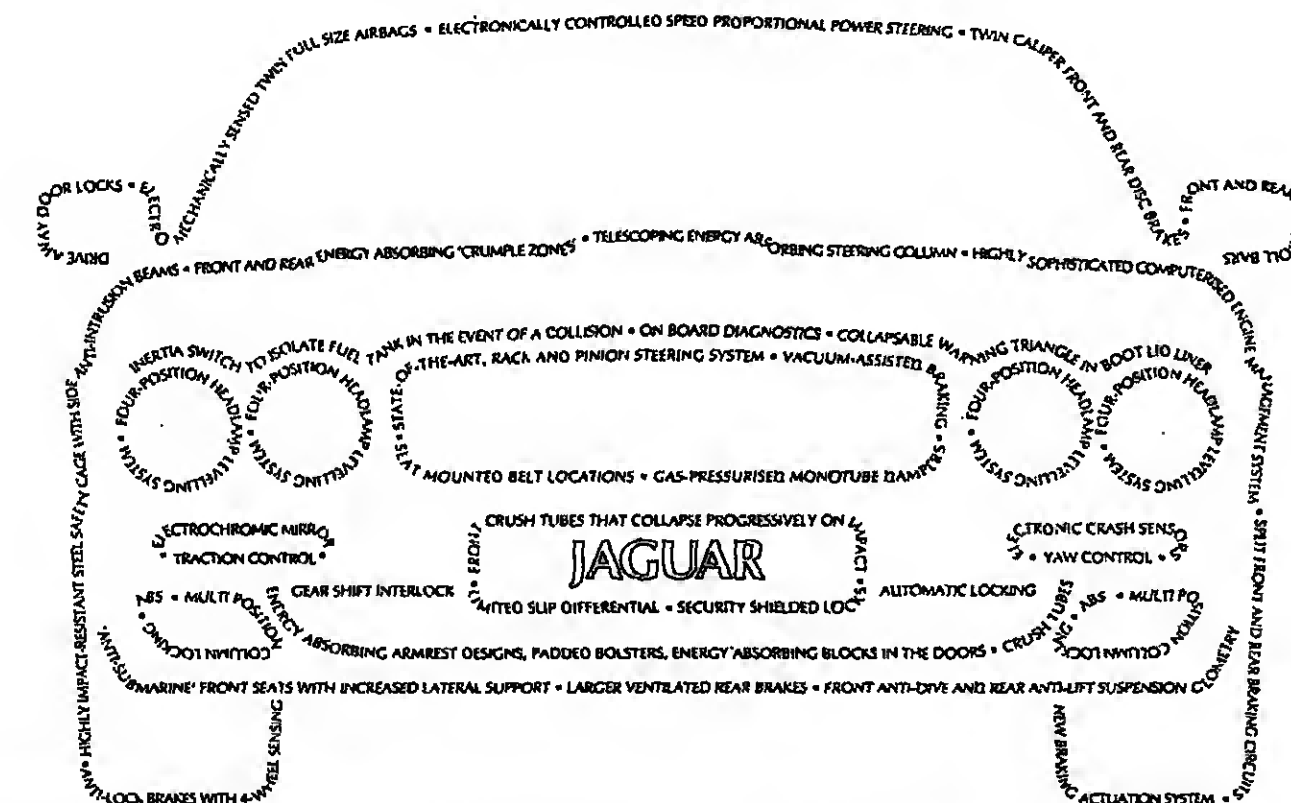
Leaders in the global coughs and colds OTC market are P&G, which has about a 15 per cent share, according to industry estimates; Warner Wellcome, the Anglo-American joint venture between Warner Lambert of the US (which produces Benylin) and Wellcome of the UK (which makes Sudafed) with 14 per cent; American Home Products, with about 8 per cent, and SmithKline Beecham, which has a 4.5 per cent share (this is expected to rise to about 7 per cent when details of SB's recent acquisition of Sterling Health are finalised).

None of the leading pharmaceutical companies is betting on a cure, but all are reshaping, repackaging and rebranding. "The goal is to get a cure," according to P&G, "but before you get there, you have to try to improve what's available now."

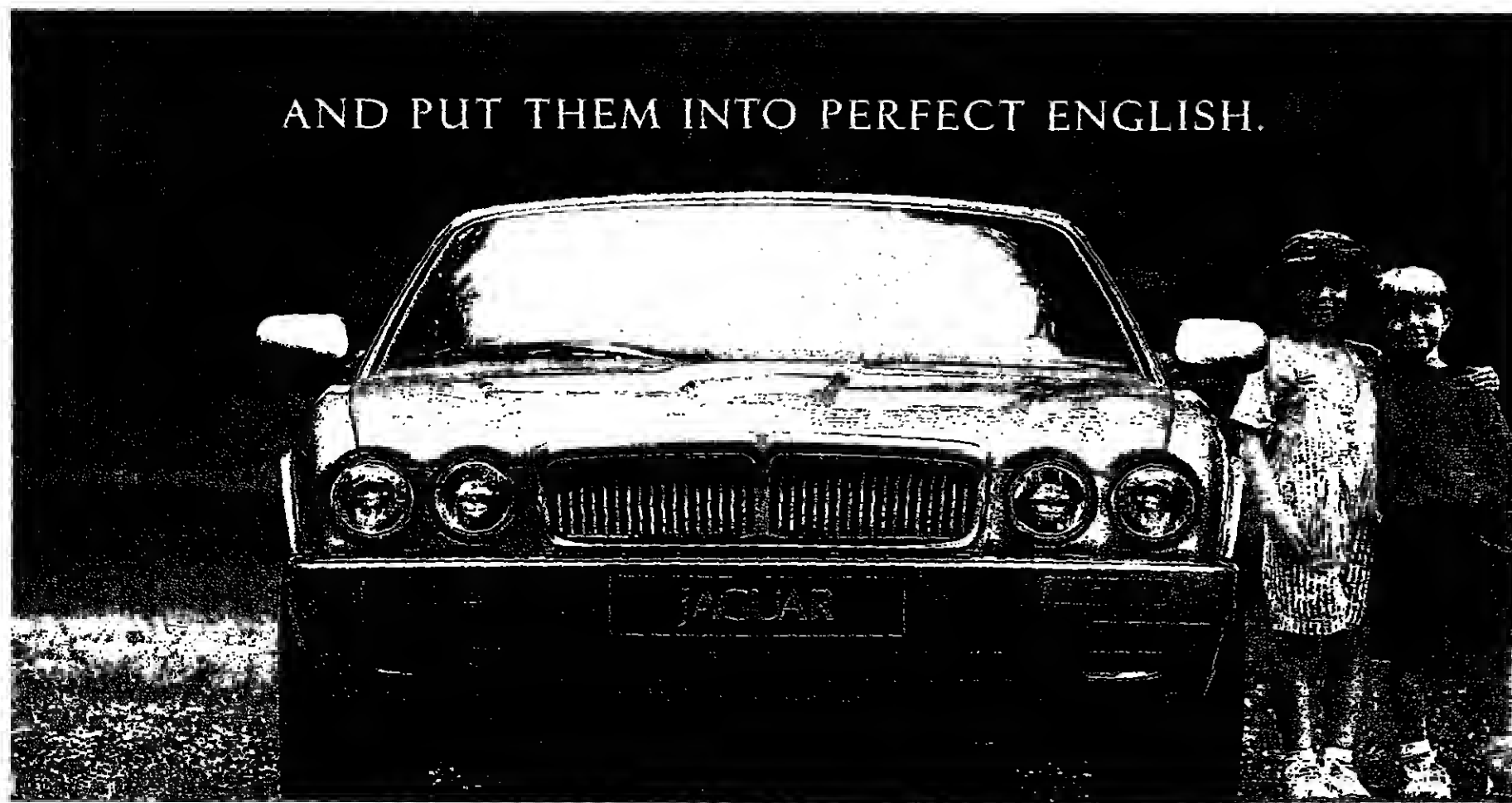
A six-part series on cancer research will start on the Technology Page next month. The drug discovery series will resume next summer.

Articles over the last six months have looked at pharmaceutical advances in the following areas:  
 Immunity ..... 30 September  
 Lung ..... 25 August  
 Stroke ..... 29 July  
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## New light on road safety

European car makers are using pioneering techniques, writes John Griffiths

Europe's motor industry has developed a system which could sharply reduce road deaths, according to European car manufacturers.

The technology, which involves the use of ultra-violet light in headlamps, was developed under the Promethus research programme and could be ready by the end of this decade.

About 50,000 people are killed and around 1m injured each year on roads in Europe. With a view to reducing the toll, and solving another of the problems bedevilling Europe's roads - traffic congestion - 90 cars and trucks fitted with an assortment of pioneering technologies were put through their paces at a Paris conference last week.

They were demonstrating the fruits of Promethus, the first pan-European collaborative research project, which involves 13 vehicle manufacturers and some of their key component suppliers, plus electronics and defence equipment producers, research institutes and universities.

Promethus - an acronym for Programme for European Traffic with Highest Efficiency and Unprecedented Safety - is eight years old and has cost nearly Ecu900m (£703m).

The UV system, developed by Saab and Volvo, was demonstrated by Saab last week. At an unlit test track near Paris last week, the Saab 9000 showed only a hint of UV light from two small lamps at bumper level. But for the driver, the UV transformed the view. White lines and road signs treated with UV-responsive paint shone out from hundreds of yards ahead.

Apart from safety, there is another dimension to the programme. Europe's vehicle makers are locked in a fierce race with rivals in Japan and North America to develop new technologies expected to transform vehicles and road infrastructure by the 21st century.

At stake are vast rewards

for those whose technologies become the industry standard in areas such as vision enhancement, automatic collision avoidance, and data interchange between vehicles and roadside equipment for purposes such as route finding and automatic tolling.

The Promethus research has fallen into three categories: safer driving, mainly through autonomous on-board systems; "co-operative" driving, involving information exchanges between vehicles or roadside information beacons; and broader traffic management technology.

The UV system falls into the first category. Jaguar, glass manufacturer Pilkington and GEC Marconi Avionics have taken a different approach, adapting military technology. A near-infrared camera and filtered headlamps allow the driver to see into pitch-black countryside. Infra-red, unlike UV, can also cut through fog.

Jaguar also demonstrated an "intelligent" cruise control car, developed with Philips, Lucas Industries, Alfred Teves and DASA, which measures the distance and speed of vehicles ahead, maintaining a safe distance by automatic braking and throttle. The driver can override the system.

Lucas, and Oxford and Southampton universities, has joined Jaguar to develop a vision system using a video camera and radar sensors to scan the road ahead and predict collision risk. BMW, Matra, Renault and Jaguar have also developed systems which help the driver stay in lane using a camera which recognises lane markings.

Collectively, the Promethus technology stands to change driving and safety standards beyond recognition in the next two decades - if motorists are prepared to pay extra for safety features.

If Promethus succeeds in its goals, the 50,000 annual death toll could be halved by 2010.



## PEOPLE

## Peugeot's UK steering wheel to remain in British hands

Geoffrey Whalen, who as chief executive of Peugeot Talbot has overseen a renaissance of the French car-maker's UK subsidiary during the past 11 years, is to leave the company at the end of this year, though he will remain on the board in a non-executive capacity.

The parting is said to be entirely amicable and the powers-that-be at Peugeot's group headquarters in Paris are content to leave Peugeot Talbot's operations in another English pair of hands. Whalen's successor is to be his long-serving aide Richard Parham (far right), ten years Whalen's junior, who has been assistant MD at Ryton since 1981 - initially under Whalen's own predecessor, the late Sir George Turnbull.

"The initiative is entirely mine," stresses Whalen (right), whose angular, bespectacled and often suede-shod appearance gives him more the demeanour of a university don



than a motor magnate. "There have been no rows, no disputes - we now have a good facility and a good future at Ryton (the car plant near Coventry); I'm nearly 59 and now is a good time to leave and go and do something different."

What that something will be Whalen is not yet prepared to say - "except that I don't have any intentions of going off to run a rival car company".

Whalen is such a motor industry institution - he has twice been president of the Society of Motor Manufacturers and Traders and is currently its deputy president - that it tends to be forgotten

that he cut his career teeth not on motor cars but in the coal industry. He worked in industrial relations for the National Coal Board for seven years before joining first motor components group AC Delco, then British Leyland and - after a brief spell with food group Rank's Hovis McDougall - Peugeot Talbot, as personnel director, in 1980.

The Peugeot Talbot Whalen joined was a very different animal from today's. It was then mired in losses which would total nearly £400m over almost a decade before the financial turnaround - a £3.1m net profit - came in 1984.

Since then it has been profitable for all but one of the past ten years, with its UK market share jumping from just over 1 per cent to the current 8 per cent. Car production over the same period rose from 20,000 a year to a peak 100,000-plus, with around 90,000 expected next year.

## Bodies politic

Sir Paul Nicholson, chairman of Sunderland-based Vaux Group, is to become the first President of the North East Chamber of Commerce.

The Chamber, one of the country's largest with 3,000 member companies between the Scottish borders and North Yorkshire, comes into being on January 3 - the result of a merger of three chambers.

One of the region's leading businessmen, Sir Paul is a director of the Northern Development Company, Northern Electric and Tyne Tees Television, and chairman of the Tyne and Wear Development Corporation. He is a former chairman of the CBI's northern region and of Northern Investors.

■ Kenneth Caldwell, who has spent the past eight years working for Voluntary Services Overseas, has been appointed chief executive of SUSSEX Training and Enterprise Council. Caldwell, 39, whose early career was spent in manufacturing industry, succeeds Malcolm Allen who has been appointed chief executive of Kent Tec.

■ Simon Bolam, the owner of E.H. Ransom & Co in Edinburgh, has been elected president of the CHARTERED INSURANCE INSTITUTE.

■ Stephen Rubin, chairman of the Penland Group, has been appointed world president of the TEXTILE INSTITUTE.

■ Roy Whitaker, formerly of Greenwell Montagu and recently secretary general of the Association for Child Psychology and Psychiatry, has become director of finance and resources at the CANCER RESEARCH CAMPAIGN.

■ Jonathan Fry (below), group chief executive of Burmah Castrol, is appointed chairman of the Asia Pacific Advisory Committee being set up by the ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS.



■ Mike Grant, 41, a former Laing & Crutchfield stockbroker, has taken over as group treasurer of Eurotunnel where he will be responsible for managing the group's £30m debt and relations with its 220 banks.

Grant, who joined Eurotunnel in 1987 and is a member of the association of corporate treasurers, is taking charge of an expanded department following Eurotunnel's decision to merge its treasurer's and corporate finance departments.

The former has been responsible for areas such as the management of the group's interest rate and foreign exchange exposure and the corporate finance department has been concerned with bank negotiations, financial analysis and equity issues.

Now that Eurotunnel has raised the bulk of its capital, the group is consolidating its financial side under Graham Corbett, the chief financial officer. Peter Ratzer, 55, currently director of corporate finance, is becoming a senior financial adviser before taking early retirement towards the middle of 1995 and Patrick Fulhaber, 48, who has been treasurer since 1991, is returning to France.

Grant, who was corporate finance manager, will also take

over responsibility for the bank and investor relations department in his new role.

■ Colin Fraser, 49, chief executive of McGregor Cory, the contract distribution business of Ocean, has resigned, and will be leaving the group by mutual agreement at the end of the month. Fraser was also a main board director of Ocean, the freight, environmental and marine services group which has continued to disappoint the City.

John Allan, who became chief executive of the group last month, said yesterday that he would be taking a personal role in McGregor Cory as executive chairman. Significant investments had been made in this business, and he aimed to accelerate the rate of return to shareholders.

Fraser, whose total emoluments last year were £113,000, was on a three-year rolling contract. Compensation is still being discussed.

Allan said there were no plans to change any other executive directors at the moment.

■ Saul Lanyado has joined GEC-Marconi as managing director of the company's avionics division from STC submarine systems where he had

been managing director for six years. Before that Lanyado had worked for Marconi as a director of the instruments division in Scotland; he replaces Derek Dickinson, who has moved to GEC-Marconi's Stamford, Mid-essex, headquarters. Lanyado will report to Roy Gardner, managing director of GEC-Marconi and a main board director of GEC.

GEC-Marconi avionics employs about 9,000 people at sites in Rochester, Edinburgh and Basildon. The company has a turnover of about £500m a year and manufactures radars, flight control systems, displays and power systems.

Lanyado holds a first class BSc in electrical engineering from London University and a PhD in computer science from Manchester.

■ John Hart, formerly vice-president Europe for Wrangler, has been appointed vice-president, marketing and business development for REEBOK INTERNATIONAL.

■ John Langlands, formerly finance director of Eclipse Blinds, has been appointed finance director of BRITISH POLYTHENE INDUSTRIES.

■ Paul Watkinson, group personnel director, has been appointed to the BRITISH RAILWAYS Board.

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## CONTRACTS &amp; TENDERS

## SOLIDERE

The Lebanese Company for the Development and Reconstruction  
of the Beirut Central District, S.A.L.

### Prequalification of contractors to design and build sea-front defenses in the Beirut Central District

Established on May 5, 1994, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, SOLIDERE, is in charge of financing and executing infrastructure and marine works within the city center of Beirut and of developing this area, spreading out over 1.8 million square meters.

SOLIDERE will also treat a dumping site of 250,000 square meters, created on the waterfront during the war in the absence of an alternative site for refuse. Disfiguring the coastal facade of the city, this major local and regional environmental problem will be treated, transformed, and expanded into development and public lands of approximately 600,000 square meters to include a vast green park, a seaside boulevard, tree-lined promenades, and residential, commercial and office spaces.

The reclaimed land will be protected against storms by sea-front defense structures extending over a distance of more than 1000 meters. The structures form part of a double line of defense, comprising a row of submerged caissons, some reaching 1900 tons each, a lagoon and a series of quays and promenades. The caissons will be in water depths of about 20 meters with a crest level at 0.5 meters so that they will remain invisible from the shoreline.

providing an unobstructed view of the sea. A marina will be constructed at each end of the sea-defense structures.

SOLIDERE wishes to develop a bidders' list for the Design and Construction of the sea-protection works highlighted above. International contractors who have already executed similar works, and who have access to the appropriate type of equipment, are invited to submit a pre-qualification document to the address below, to be received not later than November 15, 1994.

Contractors who have already submitted an Expression of Interest document for these works do not need to take further action, unless they wish to add to the information already provided.

Based on the information received from contractors, SOLIDERE will establish a short list for invitation to tender.

Address:  
The Lebanese Company for the Development and Reconstruction of Beirut Central District, S.A.L.  
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P.O. Box 119493 - Beirut - Lebanon



SOLIDERE

For necessary documents and further information, please contact Inad DANA.  
Tel. 646128/ Cellular (212) 478 3915. Fax 646133/ Cellular (212) 444 8165



## MANAGEMENT: MARKETING AND ADVERTISING

### Audit rivals contest

The normally peaceful world of auditing magazine circulations, the key currency for advertising, is being disturbed by the first stirrings of serious competition.

BPA International, the US-based body responsible for auditing the circulations of more than 1,600 magazines, mostly in the US, is increasingly moving into Europe, and the UK in particular.

The organisation already serves 67 magazines in the UK but has now set up a European sales and marketing office, much to the irritation of the official British audit body the Audit Bureau of Circulations. Both BPA and the ABC are non-profit making bodies.

Joseph Foley, BPA's international director, believes he is bringing extra rigour and higher standards of verification to the UK marketplace, at a time when publications are becoming more international.

BPA says it provides detailed information on who a magazine goes to in terms of job title, something that is not part of the standard ABC audit.

John Beadell, chief executive of the ABC, says his procedures are among the most stringent in the world, certainly comparable to those of the BPA and that more detailed information was introduced with the ABC Profile in 1991.

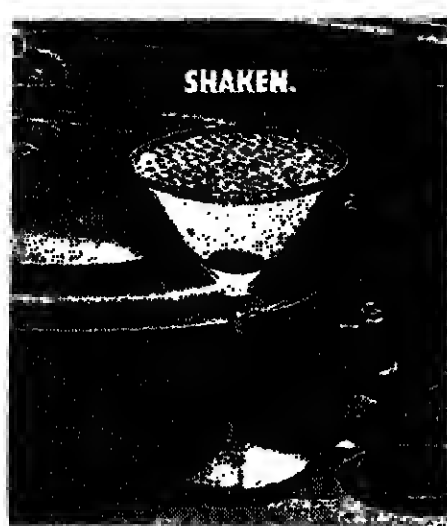
"There's not going to be a war. It would damage the integrity of circulation audits," he says.

Organisations such as the Periodical Publishers Association believe advertisers, agencies and publishers want a single currency for comparing magazine circulation in the UK and it should be the ABC.

"Two competing currencies in the same marketplace must devalue both through undermining confidence," Ian Locks, chief executive of the PPA, says.

He fears the next stage in the competition will mean players having to buy both sets of data - thereby doubling the cost.

Raymond Snoddy



## The hunt for a classic

Diane Summers on this year's UK Advertising Effectiveness Awards

A new advertising campaign is launched and, as a result, sales surge. Rarely is life that simple, as this year's winning entries for the UK's Advertising Effectiveness Awards, unveiled on Tuesday, demonstrate.

The awards, unlike the thousands of other trophies the advertising industry loves to bestow on itself each year, are not for creative excellence, artistic merit, brilliance of execution or originality of concept.

Instead, the biennial awards, organised by the Institute of Practitioners in Advertising, are given for case histories, often laden with dry statistics, which succeed in demonstrating how an advertising campaign has contributed to a product or service's commercial success.

This year's overall winner - Tim Broadbent at WCRS, for his study of the agency's advertising for BMW over the last 15 years - illustrates the complexity of evaluating effectiveness when there is no "big bang" of a new campaign.

As Broadbent points out: "New advertising can give a sudden switch to the needles of research dials, which makes it easier to demonstrate how changes in consumer attitudes coincide with changes in sales." By contrast, his job was to convince the judges that consistency of message over time was the essence of the agency's success in its advertising for BMW.

When BMW (GB) was established in 1979 to take over from the previous distributor, it set objectives of maintaining high profit margins while trebling sales by 1990 from 13,000 new cars a year to 40,000. These objectives have been achieved and BMW in Britain has outperformed the market, thanks partly, argues Broadbent, to WCRS's "ultimate driving machine" campaign which has run throughout the whole period.

By using comparisons with BMW's performance in other European markets, he picks out factors such as price, distribution and product improvements which could have accounted for BMW's outstanding sales growth in Britain. Broadbent's calculation is that advertising expenditure of £91m since 1979 has helped to generate approximately £38m in extra sales during that time. "The value of BMW's brand-building campaign seems beyond question," he concludes.

The essence of the advertising has been a consistent tone of voice, with the car as the master of each ad. Says the case study: "There are few humans or signs of humans, because humans can suggest fallibility, whereas BMWs are shown as precise, cold, technical icons with jewel-like perfection." There are no contrivances "to add superficial glamour, such as stately homes, sunsets or glamorous blondes".

It is difficult to imagine anything further from the BMW world than Boddingtons, the beer billed as the "cream of Manchester". The case study of Boddingtons' advertising, by Guy Murphy at agency Bartle Bogle Hegarty, won the category for products or services which are new, or have no significant history of advertising.

When Whitbread bought the Boddingtons brewery in Manchester in 1989 it was faced with the task of transforming the bitter into a national brand without alienating its existing regional drinkers. Exploiting its attribute of being creamy-looking when poured, BBH focused on the product, rather than the user - a more common tactic in the advertising of bitter brands. The agency also avoided the traps of regional stereotyping. The campaign that was developed strongly linked product appearance to product delivery - the creamy appearance to smooth taste.

The agency rejected television advertising to launch the campaign, deciding, instead, on targeted press advertising which would reach "premium" beer drinkers. The outside back covers of magazines, in particular, were used to build up awareness. It was only after two years that TV advertising was added, as Whitbread gradually built up its advertising spending on Boddingtons from £1.8m in 1991 to

£4.5m last year.

The brand, which includes Canned Boddingtons as well as Boddingtons Bitter, has grown three-fold since its acquisition and is now the UK's fourth largest bitter brand. Like the BMW case history, the Boddingtons study works through the factors which have had an effect on the brand's growth and attempts to single out and value advertising's contribution.

This value emerges as 6.1 per cent of total sales, which Whitbread confirms more than clears the cost of the campaign in the short term, while laying the foundations for the long-term success of the brand.

Chris Baker, planning director of agency Balfour Sharkey Trott, who was convener of the judges, says the BMW and Boddingtons campaigns were "major marketing successes in which the decisive role of advertising has been clearly demonstrated" and both were characterised by a high degree of originality in strategy and execution.

BMW won the day because of its "sustained success and consistent implementation" over 15 years, said Baker. The cream of Manchester will have to wait until the end of the millennium to see if it has achieved classic advertising status.

A pull-out with all the award winning case studies was published with yesterday's FT.

Advertisers neglect the reality of home life, says Matthew Batstone

### Men on the supermarket shelf

The reality is a nation with the highest divorce rate in the EU, 51 per cent of births outside marriage and a fifth of children raised by single parents.

Yet despite the fact that men are forced to run their domestic affairs as never before, images of smiling, 30-something British housewives still dominate advertising for grocery products. Men living alone represent 11 per cent of UK households, and even within the family the conventional role of woman as housewife is being eroded.

While women continue to do most of the household tasks, men no longer escape the chores as they used to, according to a survey carried out by the Henley Centre for the supermarket group Asda. Men shop for an average of two and a half hours a week, against an average of four for women.

The Henley survey suggests that 38 per cent of men claim to have personally selected more than half of the items they had bought from supermarkets. Twenty six per cent of men claim actually to enjoy shopping and a stereotype-defying 46 per cent say that cooking is a real pleasure.

When men shop they are more likely to buy brands and spend on average 5 per cent more than their female counterparts - on the face of it a manufacturer's dream.

Donald Kerr, planning director at the advertising agency J. Walter Thompson, believes that an opportunity is being missed because "conventional thinking views women as the housewife. Many companies still see women in their pre-new man role". He attributes this partly to attitudes created by the recession, which have left a culture of caution among Britain's marketing community. But his main contention is that "many marketers and advertising executives don't take their home to work".

If they remembered the reality of their own homes while wearing their suits, many of Britain's brands could have a very different orientation.

Such suggestions are dismissed

by Jerry Wright, marketing director at Lever Brothers, a company with a large portfolio of grocery brands.

"The bulk of our brands are targeted at women, who still do the bulk of shopping," he says, "but we do pick up a lot of men with our advertising."

Wright concedes, however, that men represent a valuable franchise for grocery manufacturers. "I think there is a feeling that men are more likely to buy brands, because they have less knowledge and feel less sure of themselves than women."

Wright believes men can be victims of a kind of commercial Oedipus complex. "They are often tempted to buy the brands their mother used to use," he says. Even so Lever Brothers has not tried to develop a niche.

When men shop they spend on average 5 per cent more than their female counterparts

male-oriented grocery brand and the company has not even carried out any specific research into this opportunity. "The needs of men as consumers of washing powder, for instance, are not distinct enough," says Wright, "although you might argue that young men would be interested in a heavy soiling product, because they play more sport."

Wright believes most grocery brands are sufficiently accessible to men. "Most brands in this category don't say too much about you as a person, so buying one with a feminine image would not give the majority of men a problem."

Lever Brothers' rival Procter and Gamble is currently screening an advertisement showing a man cleaning the kitchen floor for his wife. A sign perhaps that advertisers must increasingly reflect life as it is, rather than recreating the kind of scenes that were looking dated even in the 1950s.



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CREATING THE RIGHT CHEMISTRY

AKZO NOBEL



Cinema/Nigel Andrews

# Goodbye, Mr French Fries

Few in this island will have restrained a giggle at the vision of British boarding school life presented in the recent *Smoking/No Smoking*. Alain One (Resnais) hijacked Alan Two (Ayckbourn) to give us what seemed a cross between P.G. Wodehouse and the wilder scenic fancies of Fragonard. For non-Britons, it was clear: Idiocy plus Idyll equals the public school.

So naturally we turn to *The Browning Version* for realism. Produced by Ridley Scott and directed by Mike Figgis (*Stormy Monday*, *Mr Jones*), this stars Albert Finney as the unloved, dicky-headed classics teacher of Terence Rattigan's stage play. All these chaps are British, so we should be safe.

But wait. Ten minutes into this tale of Andrew Crocker-Harris and a heartless, unrepentant retirement forced on him by his school, and we are hankering for the documentary exactitudes of Resnais. This twenty, stilted place seems even more unreal than Resnais' *Frangulae-sur-mer* College.

An hour in - after we learn that the hero's wife (Greta Scacchi) is canoodling with the American chemistry teacher (Matthew Modine), who has been hired on an exchange basis with Hollywood, and that Greta will never show Albert as much love as does the one grateful pupil who gives him the eponymous Aeschylus translation as a parting gift - and we feel that some serious surrealism is setting in.

All these odd Caribbean complexities. For this is a Paramount-produced film and no American (the studio's thinking probably goes) will believe that public schools are actually filled with posh, posy people who look as if they spent their formative years in a badger tunnel.

And then there is that odd cricket match in which the fields are "Howzat!" when someone is bowled. And then there is that overcranked ending when the whole school rises to applaud Crocker-Finney's farewell speech as Crocker-Scacchi stands at the rear of the hall shedding - yes! - a silent tear as the music by Mark Isham (*A River Runs*

*Through It*) swells. Unbelievable. In all senses. The only actor to stem the tide of implausibility is Albert Finney, bravely reaching out for moments of truth and unregarded poignancy from his toby-jug frame.

The rest of the film, wretchedly updated from Rattigan's period-perfect original, is made for the age of synthesised, fast-food foreign culture tasting. Goodbye, Mr French Fries.

**THE BROWNING VERSION (15)**  
Mike Figgis

**RAPA NUI (12)**  
Kevin Reynolds

**FEAR OF A BLACK HAT (15)**  
Rusty Cundieff

**MAJOR LEAGUE II (PG)**  
David S. Ward

**LONDON FILM FESTIVAL**

*Rapa Nui*, a South Seas epic by Kevin Reynolds (director of the Kevin Costner *Robin Hood*, *Prince of Thieves*), speculates on how Easter Island may have become a treeless wilderness filled with statues.

In the late 17th century, the film hazards, the Short Ears tribe fought the Long Ears after the LEs had spent many years forcing the SEs to build those rock figures topped with weird visages. Fables were fed to provide scaffolding and rolling tracks. Food ran out. Natives got restless.

Things came to a head during the annual Birdman race, in which Nora (Jason Scott Lee, Long Ears) vied with Make (Esai Morales, Short Ears) to be the first man to swim back from the neighbouring island and skin up the sheer cliffs with an unbroken egg strapped to his forehead. The victor of this early,



Greta Scacchi in 'The Browning Version': an unbelievable and implausible reworking of Terence Rattigan's stage play

remarkable *jeu sans frontières* - we keep expecting the late Edith Waring to burst out with "And a fine move there by the Long Eared team..." - will win both power and the hand of the beautiful Ramana (Sandrine Holt). She has been in the Cave of the Virgins for six months, though spoiling the sacrificial effort by emerging pregnant.

Meanwhile the island's absentee ruler (Eru Potaka Dewes) frets over his multiplying statues - "One day we'll get these right," he waves - and the evil high priest

(George Henare) keeps sending islanders to a better world by hitting them with a paddle. I shouldn't have, but when not laughing I loved this film. Knee-deep in the ridiculous, *Rapa Nui* also keeps clanking its way to the sublime. I wish I had tape-recorded the press show reaction. We all began by giggling into our handkerchiefs. By the close you could hear a pin drop.

By the close the plot has become so surreal that it is worthy of Werner Herzog. The coda involves a journey to a magically whitened island -

the next world? - as eerie as anything in *Aguirre* or *Heart of Glass*. It crowns a movie whose visual spectacle - it was actually shot on Easter Island - keeps transcending its bathetic dialogue and pained plot ingenuities. And even those are not so pained as to have stopped 30 critics inching to the edges of their seats as the Birdman race entered its majestic delirium of seas, rocks, sharks and cliffs.

The director, writer and cast of *Fear Of A Black Hat* - broadly one and the same person,

Rusty Cundieff - should be despatched to Rapa Nui immediately. It would be punishment for giving us 88 minutes of rapper phooey; a dismal spoof documentary in the *Splatter Top* tradition in which Cundieff and pals, as the band NWH (Niggaz With Hats), strum chords and crack jokes with all the élan of street buskers in Hell.

*Major League II* is worse. Charlie Sheen, Tom Berenger and the rest are back for fun and games in the world of baseball. Since this sport is more obscure to British audi-

ences even than the Great Easter Island Birdman Handicap, we are completely at sea even when we are on dry land.

In such a week you will welcome alternative choices. But can one have too much choice? The 38th London Film Festival begins next Thursday and once more offers a powerful argument for owning several sets of eyes and ears and an ability to sit in three cinemas at once.

There are almost 200 feature films this year, but I have run out of ideas for being rude about the LFF's size. If London wants its main movie event to be an indiscriminating chaos, let it. If it wants to fill up theatres and sit up minds with the detritus of the year's other festivals - what on earth are films like *Mr. Menotti's Fearful Adventure Of Private Juan Chonkin* and Mario Biondi's catatonic *Barbado Of The Mountains* doing here? - let it.

As critics we can only stand between you and the National Film Theatre, offering some aesthetic point duty as you swarm towards the celluloid.

Here are my Top Nine. Atom Egoyan's *Exotica*: a mazy mind-thriller about sex, memory and identity. Ang Lee's *Eat Drink Man Woman*: a "Three Sisters" with food, funny and poignant, from the maker of *A Wedding Banquet*. Peter Jackson's *Heavenly Creatures*: artfully OTT in its recreation of a New Zealand murder scandal. Nanni Moretti's *Dear Diary*: artfully OTT in its scenes from the life of the wry director/comedian (Rome's answer to Woody Allen).

Louis Malle's *Uncle Vanya* On 2nd Street: eavesdropping on a heart-stopping reading/hearsal by a Broadway stage company. Anna Campion's *Loaded*: fine psycho-gothic from the sister of Jane (*The Piano*). Mika Kaurismäki's *Tigervuori*: inspired doc/mock-up documentary about filmmaking veteran Sam. Fuller. Rith Panh's *Rice People*: Hardy-esque tale of the land from Cambodia. Tsai Ming-Liang's *Vive L'Amour*: Venice Golden Lion-winning puzzle picture, witty and erotic, about abstracted lives in semi-abstract settings.

All this and Kenneth Branagh's *Frankenstein* to open the event. Book now while seats and stamina last.

Concert

## Tireless Solti fires up LSO

Not everybody is joining in the London Symphony Orchestra's birthday celebrations. Reflecting on last year's bruising battle for cash, the managing director of a rival London orchestra recently observed sourly that only the LSO kept its mouth shut when the time came for the orchestra to stand up for fair play.

Out of range of the firing line, the LSO had clearly decided its own interests were best served by keeping its head down. Alone of the London orchestras, it had not been required to present itself as a competitor for funds, in effect judged a winner before battle commenced.

The LSO is certainly entering its 90th birthday season in fine fettle. Unlike its London rivals, it is not in debt, has a secure home, and is in a position to plan for its future with confidence.

On Tuesday it presented a gala concert to benefit the LSO Millennium Fund (such hubris, when the other London orchestras will be glad to survive as far as the millennium is all). The event was also part of the "Great Orchestras of the World" series at the Barbican, which seems rather a cheat when the purpose of the event is to promote visiting foreign orchestras, but perhaps a point was being made there, too.

The LSO likes to see itself as a par with the leading orchestras of Europe and the US. Tuesday's concert - an all-Brahms programme under Georg Solti - was not the best evidence to support that claim, but at least the playing was strong and vital.

Ironically, the main competition recently in Brahms' First Symphony was at the Proms with the Dresden Staatskapelle under Colin Davis, the LSO's own music director elect, who performed the music with the utmost refinement.

In his LSO appearances over the past few years Davis has started to instil some of that well-bred finesse, but Solti clearly prefers the LSO as it used to be. His Brahms was a high-octane drive down the symphonic fast lane, arteries pumping with tension, foot down on the volume control.

It is astonishing that Solti in his 80s still has this kind of energy. As the last movement powered towards its conclusion, he was bounding from side to side of the podium, arms jerking violently through the air as though whipping the final chords into place.

There was limited scope for the autumnal Brahms to show his face, either here or in the Vienna Concerto. Itzhak Perlman's view of the solo part as an outpouring of lyricism, unfailingly sweet in tone and generous with portamentos, really presupposes a different kind of performance.

Apparently tireless, Solti ended the evening by throwing in the overture to Rossini's *Il barbiere di Siviglia* as an encore. Only a few years and he will be enjoying a 90th birthday season himself.

**Richard Fairman**

Sponsored by JVC (UK) Ltd.

Theatre/Alastair Macaulay

## The Prime of Miss Jean Brodie

talks repeatedly of the importance of love. Yet love is what she has placed on the altar of teaching. And it is in her predilection that Jenny will be a great lover, a D.H. Lawrence heroine, that she most obviously tries to make her students live her life by proxy. She errs more criminally, however, in stuffing fascist propaganda into the girls' heads: which leads to the death of poor, silly Mary Macgregor.

Indeed, her only true predilection is that Sandy will be a spy, Sandy, the cleverest girl in the class, becomes the Judas among the Brodie girls, because she sees that Miss Brodie has been betraying them. This is one of the ironies in which *Miss Jean Brodie*'s tale abounds.

The play which Jay Presson Allen made of the book teaches many of them, though it goes overboard at first on the Brodie clichés and campiness.

The role of the heroine was a vehicle in the 1960s for Vanessa Redgrave (onstage) and Maggie Smith (on film); and in the 1970s Geraldine McEwan starred in an excellent TV version.

It was time for a new Miss Jean Brodie, and it was possible that Patrick Hodge might be good in the role. She has the bite, the elegance, the element of frigidity. She is, however, neither lovable nor intoxicating. And, with Alan Strachan's direction, her performance stays entirely on the surface.

I do not mean that she makes overmuch of the role's camp bravado, but simply that she never really reveals a nervous system. There are psychosexual connotations between Miss Brodie's repressed love and everything most characteristic about her teaching, but

here no one helps us see them until the words spell them out late in the proceedings. Hodge has her moments, especially when speaking or behaving quietly, but moments do not make a role.

The most persuasive performance is given by David Yelland as Teddy Lloyd, the married art master whom she loved and who loves her, though Strachan has let Yelland be too dour. Edith Macarthur, as the headmistress Miss Mackay, lacks gravitas, and Simon Scott, as the music teacher Mr Lowther, gives the most superficial performance of all. The brief 90-years-later scenes, which add such resonance to the story, are tipically played here. Jackie Morrison as Sandy gives a very fair account of a tricky role.

But Strachan's direction falls most obviously in his handling of schoolgirl life. He makes it a kind of *Mallory Towers*; whereas the life of the Brodie girls, however funny, should be psychologically sharp and alarmingly real. Miss Brodie needed to be revived, but here she and her world are too safe, too light, too neat.

At the Strand Theatre, WC2

Recital/Adrian Jack

## Occasion to celebrate

Joanna MacGregor devised a beautifully balanced recital programme for the Wigmore International Piano Season on Saturday and somehow charmed the hall's notoriously lusty Steinway into gentle manners. Sceptics might say she did not venture anything new, right down to the Thelonic Monk encore, *Round Midnight*, on which she lavished as much colour as on Ravel's *Miroirs* before the interval. Still, perhaps this occasion was something to celebrate rather than an opportunity to experiment.

She began with Bach's French Suite Number Five in G major - a fluent performance with lots of light and shade, and abundant, effortless ornaments in the opening Allemande. Each movement sang, though she took the Courante very fast. The *Loure*, with its rhythmic riddles, she played naturally, and the final *Gigue* raced at a speed which was exciting because it was so neatly controlled.

In the first of Ravel's *Miroirs* - *Noctuelles* - she enjoyed caressing the most velvety sonorities, and in the second - *Oiseaux tristes* - she captured a vivid sense of tropical torpor. One baroque sur l'océan and Alborada del Gracioso brought out her sense of élan and flamboyance before the quiescent, dusky tolling of the final piece, *la valse des cloches*.

MacGregor is never precious, and even though Schumann once said he had put on his "filthy dress" to compose *Kinderdarsen*, she took a straightforward approach to the cycle. That was all to the good - after all, Schumann told his pianist wife Clara she must forget she was a performer when playing the pieces - but if the title of Gluckes genus implies no extremes of feeling, MacGregor left it seeming rather ordinary. On the other hand, her freedom with the pulse in Kind in Einschlummer made the process of dropping time to life, but unnecessarily elaborate.

Seven of Chick Corea's *Chil-*

*dren's Songs* made a nice sequel, as well as a contrast. Number Four, with its plaint, melancholy tune over rocking triplets, seemed tailored to suit MacGregor's sleek and limpid style, while the tangy harmonies and propulsive rhythms of Number Twenty sounded closer to Corea's jazz-rock music.

Which led neatly to MacGregor's more demanding final choice, the imposing Sonata which Bartok wrote in 1926. The rugged fistfuls of notes and stamping rhythms in the first movement recall the mean, but not so lean, First Piano Concerto of the same vintage. The slow middle movement is spare and grim, while the finale becomes a frenzied dervish dance.

It is possible to imagine performances which would have shaped the music's angular features more accurately than MacGregor's, but still, it had plenty of zest and probably enough harshness for most people.

## INTERNATIONAL ARTS GUIDE

### ATHENS

Megaron Tonight: Wolfgang Gönnenwein conducts a Mozart choral and orchestral programme. Tues: Arturo Sandoval jazz concert. Wed: James Starker cello recital. Nov 4: Anna Tomova-Sintova sings operatic arias (01-728 2333/01-722 5511)

### BOLOGNA

Teatro Comunale Sat, Sun: Elio Iribi conducts Orchestra of the Teatro Comunale in a symphonic programme. The opera season opens on Nov 26 with a new production of Rossini's *Il turco in Italia* (No telephone bookings. Information: 051-329999)

### LONDON

**THEATRE**  
● The Editing Process: after much speculation about whether he would direct a new play at the Royal Court, artistic director Stephen Daldry plunges for an almost unknown writer rather than one from the safe

stable of talent associated with the Court. His choice of Meredith Oakes may prove to be visionary: he plays The Neighbour received unanimous praise earlier this year, and her new work is a black comedy in the publishing world. Previews start tonight, Press night next Wed (Royal Court, 071-730 1745)

● Three Tall Women: Edward Albee's critically-acclaimed Pulitzer Award-winning play stars Maggie Smith, Frances de la Tour and Anastasia Hille as the three tall women - an ageing dowager, her carer and her lawyer. The play is an examination of different stages in the women's lives and of the young man, the dowager's son, who has affected them all. Directed by Anthony Page. Previews begin tomorrow, opens on Nov 15 (Wyndham's 071-369 1736)

● The Prime of Miss Jean Brodie: Patricia Hodge takes on the role of the formidable schoolteacher whose mix of romance and witfulness inspires her pupils. Jay Presson Allen's stage version of Muriel Spark's novel has just opened in its first major London revival since the original production of 1968 (Strand 071-380 8800)

● Romeo and Juliet: Dusseldorf Schauspielhaus comes to London next week for four performances of Shakespeare's play, directed by Karin Beier (Nov 2-5). This is the first in a series of International Shakespeare events at the Barbican, including an adaptation of King Lear from Japan and Peter Sellers' Chicago production of The Merchant of Venice (Barbican 071-638 8891) ● The Sisters Rosenswieg: Michael Blakemore directs Maureen

Lipman, Janet Suzman and Lynda Bellingham in Wendy Wasserstein's Broadway hit comedy about three American Jewish sisters who have a mid-life reunion in London (Old Vic 071-928 7616)

● Moscow Stations: a one-person play, starring Tom Courtney, inspired by Yevgeny Yezhov's acclaimed modern Russian tale about an alcoholic who stumbles and dozes his way through a series of surreal adventures (Garrick 071-494 5085)

● The Devil's Disciple: Christopher Morahan directs the National Theatre's production of Bernard Shaw's 1907 satire on melodrama, which features a romantic villain who comes good. The cast is headed by Richard Bonville as Dick Dudgeon (National, Olivier 071-928 2252)

● The Children's Hour: Howard Davies directs the National Theatre's new production of Lillian Hellman's 1934 drama, about a vengeful schoolgirl who accuses her teachers of having a lesbian affair and sets in motion the collapse of their world. The cast is headed by Harriet Walter and Claire Higgins (National, Lyttelton 071-928 2252)

● Arcadia: Trevor Nunn directs Tom Stoppard's complex but often funny drama that won the 1994 Olivier Award for Best Play (Haymarket 071-930 8800)

● She Loves Me: the charming 1963 Masteroff, Bock and Harnick musical about two longtime pen pals who don't know they work in the same perfume factory. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-936 8888)

**OPERA/DANCE**  
Covent Garden The Royal Opera's new production of Gounod's *Romeo et Juliette*, staged by Nicolas Joé

and conducted by Charles Mackerras, opens tomorrow with a cast led by Roberto Alagna and Leonora Vazova (repeated Nov 1, 4, 9, 12, 15, 17). There is a first performance of Set in the current run of *Die Walküre*, with cast led by John Tomlinson, Deborah Polaski, Paul Elming and Ulla Gustafson. Gwyneth Jones stars in Turandot next Mon, Wed and Sat, and the Royal Ballet returns next Thurs with Anthony Dowell's new production of *Sleeping Beauty* (071-304 4000)

Coliseum English National Opera has Ian Judge's new production of Massenet's *Don Quichotte*, with Richard Van Allan, Alan Ople and Louise Winter (till Nov 9). Nicholas Hytner's staging of *Die Zauberflöte* (till Dec 7) and a final performance tonight of *Tosca* with Rosalind Plowright, David Randall and Hank Smit (071-836 3161)

Sadler's Wells American performance group *Momix* is in residence till Sat. French dance troupe Compagnie Angeline Frencoj gives performances on Mon and Tues (071-278 8916)

**CONCERTS**  
South Bank Centre Tonight: Mariss Jansons conducts the London Philharmonic in works by Beethoven, Bruch and Strauss, with violin soloist Julia Krasko (No telephone bookings. Information: 010-589329/010-5381 225)

**MADRID**  
Teatro Lirico La Zarzuela Tonight: Victoria de los Angeles song recital (01-429 8225)

**MILAN**  
Teatro alla Scala Tonight: Georg Solti conducts London Symphony

Orchestra. Mon: Francisco Araiza song recital. Sat, next Tues, Wed, Thurs: Ballet of La Scala in works by Balanchine, Tudor and Lander. Nov 5, 8, 9, 10: Kenneth MacMillan's *Manon*. Nov 6: Dmitri Alexeev piano recital. Nov 7: Jean-Claude Malgoire conducts Vivaldi. Nov 14, 16, 17: Murray Perahia is piano soloist with the Scala orchestra. Dec 7: opera season opens with *Die Walküre* (02-7200 3744)

### PRAGUE

Rudolfinum Tonight: Robert Stankovsky conducts Czech Philharmonic Orchestra in works by Martinu, Hummel and Haydn, with trumpet soloist Hakan Hardenberger. Sun: Petr Vronsky conducts Moravian Philharmonic Orchestra in works by Dvorak (02-2489 3352) State Opera Sat: first night of new production of Gottfried von Einem's *Kafka* opera *Der Prozess* (repeated Nov 3, 27, Dec 28). Repertory also includes *Tosca*, *Carmen*, *Jenfa*, *Aida* and *Nabucco* (02-2421 5031)

### ROME

La Jia conducts the Orchestra dell'Accademia Nazionale di Santa Cecilia on Sun, Mon and Tues in works by Tullio, Ravel, Brahms and Dvorak, with piano soloist Krystian Zimerman. The orchestra's programme in the pre-Christmas period features Vladimir Spivakov, Arturo Bonucci and Cecilia Gasdia as soloists. All concerts take place at the Auditorio di Via della Conciliazione (06-6880 1044)

### ARTS GUIDE

Monday: Berlin, New York and Paris.  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
Wednesday: France, Germany, Scandinavia.  
Thursday: Italy, Spain, Athens, London, Prague.  
Friday: Exhibitions Guide.

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**FRIDAY**  
NBC/Super Channel: FT Reports 1230

**Saturday**  
NBC/Super Channel: FT Reports 0230, 0330

**SUNDAY**  
NBC/Super Channel: FT Reports 0430, 1730;



The Philadelphia headquarters of Scott Paper, the world's biggest tissue maker, are a pleasant sight on a fine autumn morning: squirrels scamper by the pond and the flags of nations flap in the breeze.

Mr Al Dunlap, Scott's new boss, hates it. The success of a corporation, he says, is in inverse proportion to the size of its headquarters. Corporate HQs are monuments to the chief executive's ego. Scott's is up for sale.

So is much of the rest of the company. Earlier this month Mr Dunlap sold its coated papermaking business for \$1.6bn. On Monday he sold its power stations for \$350m. Still to go are its woodlands and pulp mills, bringing the grand total, he hopes, to \$3bn.

Since Mr Dunlap arrived as head of Scott Paper in April, 34 per cent of its worldwide staff - 11,000 people - have lost their jobs. He believes this is a record. IBM may have sacked more in absolute numbers, but their proportion was a mere 13 per cent. He is particularly proud of the fact that 71 per cent of Scott's headquarters staff have gone, including nine of its 11-strong executive committee.

The result of all this, he says, is "one of the great stories in corporate America today". When he arrived, Scott was "a stodgy old company which had totally lost its way". In six months, he has turned it round. The proof lies in the only criterion he cares about: the share price has risen more than 60 per cent.

Mr Dunlap started out as a military man, and it shows. An ex-paratrooper with a parade-ground voice, he had his first taste of management running a nuclear missile site near Washington in the early 1960s. After a career in industry which began with Scott's rival, Kimberly Clark, he spent the late 1980s as chief hatchet-man for Sir James Goldsmith, the Anglo-French financier. Had Sir James's bids for either US group Goodyear Tire or BAT Industries, the British conglomerate, succeeded, Mr Dunlap would have been sent in to run them.

His admiration for Sir James remains unstinting: "Clearly the smartest person I ever met in my life, and the next was a footnote to him." In everything, he says, they thought alike. The alliance seems an odd one: Sir James, the polished Old Etonian, and Mr Dunlap, the son of a shipyard worker from Hoboken, New

## Scott's clean sheet

Tony Jackson speaks to Al Dunlap, the papermaker's tough boss



Dunlap: big disposals at Scott

Jersey. But each is in his own way an outsider, and nowhere is this more evident than in their shared contempt for corporate America. "Scott was a microcosm of that. Its shareholders would have been better off captured by terrorists. They'd have been treated better."

"The \$3bn he is raising through the sale of assets, he says, is equal to \$40 a share. When I joined the company, the share price was \$37.75. Back in the Goldsmith days, that would have been a godsend. You could have bought the world's biggest tissue company for nothing."

Those responsible have paid the price. "When you do a turnaround, you must by definition get rid of the top people. They're the people who got it

wrong, and if they did it once they'll do it again. Every corporation has a culture. In a corporation which is not doing well, you must eradicate the culture." He thumps the table.

The problem about turnarounds, he says, is that people dislike change and respond to it with criticism. "That's where managers fail. They succumb to criticism. I don't have that problem. If you want to be liked, get a dog in business, get respect." (He himself has two dogs. Sir James's comment on this was: "I see you're hedging your bets.")

Now that the turnaround Mr Dunlap has engineered with such shocking suddenness is almost complete, where does Scott go from here? Mr Dunlap shrewdly recognises that he has an image problem on this. He is indelibly associated with the corporate raiders of the 1980s, of whom the standard criticism was that they could cut costs, but they could not build.

He is quick to reject the charge. It was never as true as people said, he claims. Sir James and he invested far more than people gave them credit for, and he is investing a lot in Scott now: in a new venture in China, in Mexico, in Arizona.

Ask him where the world leader in tissues goes from here, and he instantly says it is not the leader, just the largest. "We're not the best. Our best competitor now is probably Procter & Gamble. They're a good marketing company." He has just recruited an ex-Procter man to run his marketing.

Besides, he observes, much of the paper industry is more concerned with tonnage than with making money. "I asked a guy here how much we made in a particular grade, and he said, so many tonnes. I said, what's that in dollars? And he said, I'll come back to you. I thought, this guy's a humbug. I enjoy a joke, I was waiting to see what he'd come back with. It turned out he was serious." It seemed superfluous to ask what happened next.

Since he joined the company, he has invested \$4m of his own money in Scott shares. In a move calculated to cause a flutter in corporate America, he has decreed that all non-executive directors will be paid exclusively in company stock.

The shareholders, he insists again, are all that matter. "If you're paid to run the corporation, then by God run the corporation. If you do your job and pay your taxes, the rest takes care of itself."

A frequent criticism of policy groups is that their principles are fine, but they are short on detailed proposals on how to implement them.

The report of Labour's so-called Commission on Social Justice - chair Sir Gordon Borrie - is just the opposite. The principles vary between the platitudinous, the meaningless and the wrong-headed. But there are some good individual proposals, which needed to be rescued from the surrounding material with a greater exercise of charity and imagination than the commission members were willing to extend to their own intellectual opponents.

It is, however, unnecessarily difficult to carry out the necessary extraction. The Executive Summary is not that at all, but a party political pamphlet. There is no index. The book is both insular and partisan. Every idea is presented as novel and utterly different from the government's. Examples from other countries are brought in for debating purposes. But there is little recognition that the problems it describes affect most western countries, irrespective of the party in power.

To take one example, the British government is castigated for the low proportion of the population at work; but no mention is made of the fact that the proportion is lower still in most other European countries, whose degree of labour market regulation the commission so much envies. Above all, there is no costed programme or even a list of costed options of the kind that is standard, for instance, in the work of the Institute for Fiscal Studies.

This is a great wasted opportunity. For the potential value of a group like the Borrie commission is that it can put forward proposals which do not commit its political sponsors. Tackling the poverty and unemployment traps is an expensive operation, if benefits are not to be cut or more harshly administered. But there are more and less cost-effective ways of doing so. It would be better to give some honest estimates than an open-ended list of proposals and possibilities, with the half-hearted hint that they might be paid for by economic growth - as Ronald Reagan's tax cuts were supposed to have been. Hardly a model to appeal to a modernised Labour party.

I suspect that the first few chapters will be passed over as "guilt" by numbers merchants of all persuasions. But bad

## ECONOMIC VIEWPOINT

# Awful 'vision' but some good ideas

By Samuel Brittan



Sir Gordon Borrie, chairman of the Commission on Social Justice

gives political economy a bad name. We are given these alternative prescriptions: (a) an "Investors' Britain", (b) a "Regulators' Britain" and (c) a "Levellers' Britain". As if these titles were not contentious enough, the first is identified with a "fair and prosperous Britain", the second with a "harsher Britain" and the third with a "kindly, poorer Britain". Why did not the philosopher member, Professor Bernard Williams, apply the standard critique of "Persuasive Definitions" to this section?

The labels, however, will not be persuasive to those with enough economic logic to know that investment is itself a cost, not a benefit, best seen as by-product of entrepreneurial search for new products, processes and customers. There is a highly misleading chart supposedly linking the growth of output per worker to the share of net investment in GDP. We are not told of the period over which the relationship is supposed to apply. The only source we are given is the *New York Review of Books*, without even an author. The chart fails to include the former communist countries which had the highest investment ratios of all

and - as we now know - the worst economic performance. It was inevitable that the commission would support minimum wage legislation in view of former Labour leader John Smith's dug-in attitude. But the commission's own figures show that it is an extremely ineffective way of dealing with poverty, which varies so much with family circumstances. Its main weapon is a number of studies purporting to show that minimum wages in some industries and countries do not destroy jobs, relying on the reader's ignorance of other studies showing the opposite.

The market economist is meant to applaud the commission for proposing a minimum wage of £3.50 per hour rather than the higher sums demanded by union leaders, as if a perverse medicine can be defended by the moderation of

### The best of 'Borrie'

Pension Guarantee to help poorer pensioners

Easier access to Family Credit

Higher earnings 'disregards' for unemployed

End of Married Couple's Allowance

Higher rate taxation of Child Benefit

the dose. Is the £3.50 minimum meant to apply to part-time or only full-time workers? If it applies to the latter, it will only increase the shift to part-time jobs. If it is to apply to any work done by anyone, then it means that a householder who cannot afford to pay that rate for a few hours' work by a jobbing carpenter will have to resort to do-it-yourself - even though this makes both sides worse off and is in contravention of one human being's right to make a contract with another so long as there are no large adverse spillover effects.

The most radical single idea is the Pension Guarantee. This, thankfully, abandons the Labour commitment to wasteful across-the-board increases in state pensions. Instead there are to be more generous and more humane top-up arrangements than at present for pensioners with little or no other income. There is, of course, much casuistry to avoid using words like selectivity and means testing. Less happily, mandatory second pension schemes seem to be advocated - which is too near compulsory saving for a liberal. Many detailed but important

low cost improvements are put forward which might make Family Credit more effective in topping up the incomes of families with low earnings from employment. Another good idea, canvassed rather than firmly proposed, is that of merging Family Credit with Income Support for the unemployed. At least that is better than the Conservative John Secker's Allowance, which puts an iron curtain between the two.

The Borrie commission is also more favourable than the government to low cost proposals to allow the unemployed some modest earnings from casual work without losing benefit. Furthermore, there are reforms in Housing Benefit, which could make it less of a work disincentive than it now is when combined with Family Credit. All through one would like tabulated statements about losers as well as gainers.

One can also applaud the suggested phasing out of the Married Couple's Allowance. This was originally meant to happen when individual taxation was introduced, but one rather important married couple vetoed the idea. The allowance is now being partially phased out by Kenneth Clarke. But unlike the chancellor, I would also support the channelling of the savings from ending it into children's benefits. Children are more at risk from poverty than childless couples or older single people; and they did not ask to be born.

That does not mean sharing the Borrie enthusiasm for channelling everything saved into across-the-board increases in Child Benefit - still less into nursery education which looks like vying with industrial training on the fad of the hour. I would prefer some of it to be channelled into income-related benefits. Most of all, I was pleased to see the incorporation, if only as a suggestion, of Hermione Parker's idea of a modest Participation Income for all, which would be conditional not on seeking paid employment but on any kind of service for other people.

Those of us who believe in individualism with a human face (which means something less grudging and punitive than the government's ideas) should not hesitate to read Borrie for ideas and dialectical support. But on no account should we allow it monopoly of insight, compassion, imagination or any other aspect of the "vision thing".

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Personal pensions: predictions, incentives - and now a compensation loop?

From Mr R S Parkin.

Sir, I imagine that few tears are being shed for the life insurance industry as it contemplates the compensation bill for the personal pensions scandal ("The high cost of bad advice", October 26).

However, there is an unfortunate tendency in the media to talk about the "pensions" industry when reporting the issue. This risks further damaging the already somewhat tarnished image of occupational pension schemes in a way which would be completely unfair.

It is very easy in these situations to be wise after the event. However, in this case - and it makes the scandal much worse - the pensions industry predicted that this would happen. During 1986 and 1987 pension scheme trustees, employers and advisers fought a campaign to warn government of the consequences of unleashing a commission-hungry sales force on vulnerable people faced with complex financial choices. Self-regulation never stood a chance, but government, fired with ideology about personal choice and encouraged from the sidelines by a life insurance industry making its lips, dismissed this campaign as paternalistic vested interest.

The rest, as they say, is history. While it must now be the responsibility of the life insurance industry to foot the bill, it is to be hoped that occupational pension schemes will co-operate fully in the process of repairing the damage by readmitting those who have lost out. And may the UK working population then recognise who its friends really are.

R S Parkin,  
White Holm,  
Pebble Hill Road,  
Betchworth, Surrey RH3 7BP

From Ms Kim North and Ms Jo Smith.

Sir, Lex writes that "the scale of the UK's personal pensions scandal continues to shock" ("Pensions", October 26). The FT is being too modest: you hear the whistle on personal pensions more than four years ago.

Our files show that on January 6 1990, you published the view that Norman Fowler, the minister responsible for the new personal pensions, "has put the pension clock back half a century". The article correctly states that people buying personal pensions "have no idea what benefits their contributions will eventually buy" - and was appropriately headed "Paying dearly for Norman's knighthood".

Kim North,  
Jo Smith,  
The Pretty Technical Partnership,  
54 Artillery Lane,  
London E3 7LS

From Mr Digby Jacks.

Sir, your article, "The high cost of bad advice", is apposite. I wonder when the real perpetrator of the current imbroglio facing the life sector will be in the dock?

It was the government in its headlong rush to privatise everything, including occupational pensions schemes, that created the personal pensions regime - which, in turn, led to the mis-selling. This was fuelled by the National Insurance rebate. Quite a scam really! Yet some insurers still give money to the Conservative party.

First, at the time of the introduction of personal pensions, the government offered apparently significant incentives in the form of rebate of contributions to the state earnings-related scheme (SERPS), to encourage people to make their own personal pension provision. It was this rebate, as I recall, which was a major feature in the selling propositions of personal pensions advisers.

Second, the "better value" offer by many occupational schemes rests largely or solely on the fact that today the majority of companies which run their own such schemes still offer significantly higher remuneration (in the form of employer pension contributions) to employees prepared to join the company scheme than to those who prefer to make their own arrangements.

This anachronism can surely not be justified on any objective or rational grounds. A E N Buckley,  
Principal Consultant,  
PA Consulting Group,  
6 Highfield Road,  
Edgbaston,  
Birmingham B15 3DJ

From Mr Toby Micklethwait.

Sir, insurance companies now face a compensation bill of up to £2bn for wrong pension advice. Where are they going to get the money from? Surely they are going to clip all policies to pay the cost. They will doubtless find a justification in the fine print.

If so, then anyone who invested via an insurance company suffered a risk of having their investment clipped to pay compensation. Were they warned of this risk? If not, they are entitled to compensation. We may be entering a compensation loop.

Toby Micklethwait,  
Hamilton House,  
Lynne, Surrey KT16 0AN

### Super unleaded ban no solution

From Mr Adam Seymour.

Sir, The Commons transport committee's proposal that super unleaded should be banned ("MPs row with oil industry on unleaded petrol safety", October 26) must be considered with the lessons of the past in mind. If the leaded versus unleaded gasoline debate has taught us anything, it is that banning is no solution. Without clear guidelines as to what lead should be replaced with, industry naturally opted for the most cost-effective means - namely the replacement of lead in petrol with aromatics (of which benzene is one).

With what high-quality additives could the oil industry replace aromatics if govern-

ment decided as a result of this proposal that their use should be restricted? In the short run aromatics could be replaced by alcohols or ethers, imported Methyl-Tertiary-Butyl-Ether (MTBE) being the least-cost option. However, studies into the effects of adding MTBE have shown that the benefits of reduced benzene emissions may be counterbalanced by increased emissions of other toxic substances, namely formaldehyde and acetaldehyde.

In the long run, the government could introduce incentives for investment in different oil-processing technologies that do not produce aromatics. An alternative for refiners is to increase the level of olefins,

another type of hydrocarbon used to boost gasoline quality.

Adam Seymour,  
research fellow, Oxford Institute for Energy Studies,  
57 Woodstock Road,  
Oxford OX2 6FA

### Own answer

From Mr O J W Rudwick.

Sir, The answers to the questions posed by Mr Jonathan Ruffer in the first paragraph of his article (Personal View, October 25) are surely given in the last, international bond markets which were drunk on excess liquidity in 1992-93 have now awoken to the cold dawn of rising interest rates, and set yields at level which discount likely future inflation rates. Only a dwindling bank of ageing teenage scribbles believes that current low levels of inflation can safely be extrapolated into the indefinite future.

O J W Rudwick,  
The Garrick Club,  
Garrick Street,  
London WC2

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## FINANCIAL TIMES

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Thursday October 27 1994

## Misreading the road map

A web of asphalt spreading over the green fields of England: that is one of the nightmare visions conjured up by yesterday's report on UK transport policy from the Royal Commission on Environmental Pollution. Its authors, 16 scientists and environmental experts, foresee a future where Britain builds miles of new roads, at ever-increasing cost, but fails entirely to relieve the traffic jams choking its cities and junctions.

Many share those fears. Environmentalists have warmly welcomed the commission's warnings and most of its 100 recommendations. But this congested report, two years in preparation, does little to clear the road ahead.

That is unfortunate because it is entirely right in starting from the principle that road users should pay the full environmental and health costs of the roads: pollution, accidents, noise and loss of amenities. It is indisputably right, too, in observing that it is hard to set such prices. Pollution and noise can be measured straightforwardly, but some health implications are unclear. Medical researchers suspect that exhaust fumes are an important factor behind the rising incidence of asthma, but have not yet proved the link.

But such difficulties should not deter calculations; they simply imply that the conclusions should be repeatedly reviewed. The commission provides a good example: it calls use of super unleaded petrol, portrayed for years as "green", into question for causing emission of high levels of benzene. The figures assembled by the commission, if imperfect, are illuminating. It puts the environmental costs of road use by all vehicles at between £4.6bn and £12.9bn. Accidents add a further

£5.4bn. After taking account of building costs, it estimates that revenue raised from road users ranges from 121 per cent of total costs to 61 per cent.

The estimates clearly portray heavy goods vehicles as the villains, covering only between half and two-thirds of their unit costs. The commission is right to conclude that measures should be taken to ensure they close that gap.

But it begins to veer off its route in addressing cars and light goods vehicles. The report suggests that these more than cover the total costs of their use of the roads. But it nonetheless wants taxes on these vehicles to be raised in order to protect the countryside - an environmental asset it considers priceless.

That step reveals the weakness of the report: an excess of morality over economics. The authors assert that it can be morally wrong to trade environmental assets against the benefits of mobility. They exhort people to walk more and get fitter per se, instead of driving.

The conclusion the report should have reached is that, provided road use is correctly priced, there is nothing intrinsically wrong with building more roads if needed. That is not to preclude more investment in public transport, one of the commission's main recommendations. In central London, for example, it is clearly wanted and needed. But throughout, the report portrays public transport as a better substitute for roads than it is capable of being, however well maintained. The commission is right that government has done a poor job of assessing Britain's transport needs for the future. Its report does not, however, fill the gap.

## Local sense

The Local Government Commission is to be congratulated for seeing sense at last and drawing back from a wholesale reconstruction of local authorities across England. Its recommendations for nine counties represent a broadly fair balance between the desire of a few towns and cities to break free of their county councils, and the antipathy of the electorate as a whole to further expensive musical chairs in local government.

The commission should apply the same principles as it makes final recommendations for the rest of England's counties in the next two months. The duty will then be on Mr John Gummer, environment secretary, to abandon hopes for introducing single-tier authorities where they are not strongly desired by the voters.

Mr Gummer's decision this week to reject proposals from the commission to abolish North Yorkshire and Somerset county councils is a clear sign that he has already done so. He could go one better and reject any further commission proposals to abolish counties outright. On the basis of the public consultation, it is hard to

justify abolishing any counties beyond the two - Avon and Humberside, both spawned by the last reorganisation in 1974 - which he agreed to scrap yesterday.

Once the present review is completed, several lessons need to be learnt for the future. On the positive side, the effort made by the commission to gauge public opinion before publishing firm decisions was commendable, and appears to have been vital in avoiding a shambolic conclusion. The response to the postal referendum was for the most part derisory, but this itself reflected the lack of popular enthusiasm for reform. The wider use of local referendums is to be encouraged.

There is, however, a debit side. No review process was established before the government sought to impose single-tier authorities in Wales and Scotland. What do people think there? And in England, the review has done little to revitalise local democracy. With resentment about government-by-quango growing, the malaise in local government will have to be addressed by the new commission on standards in public life.

## Citadel storm

The apparent storm in a tea-cup between the two main rightwing contenders for next year's French presidential election looks set to fracture a great deal of Gaullist porcelain. For several months, antipathy has been growing between the two main figures in France's Gaullist RPR party, Prime Minister Edouard Balladur and Mr Jacques Chirac, the party leader and mayor of Paris. This week the squabbling has burst into the open following Mr Balladur's accusation that Mr Chirac has been using the Gaullist party as a "citadel" in which to take refuge from the world outside.

Although this almost certainly was not his intention, Mr Balladur has publicly put his finger on a central problem confronting today's inheritors of the mantle of President de Gaulle. Their inability to reconcile the doctrines laid down in his name with the requirements of France and Europe after the end of the cold war represents a crucial political handicap for the right. This failure encouraged disillusioned Gaullists to seek solace in fringe parties in the June elections for the European parliament.

France's left wing is in a still more sorry state than the RPR, but the conservative infighting can only benefit Mr Jacques Delors, the Socialist president of the European Commission. If, as expected, he runs for the presidency next year, Mr Delors would rely powerfully on his perceived attractiveness to middle-ground voters - an appeal that Mr Chirac, in particular, manifestly lacks.

The recent description of Mr Delors as "the candidate of German Christian Democracy" by the former Socialist defence minister,

Mr Jean-Pierre Chevènement, was no doubt meant as a jibe, but it could have a prophetic ring. Chancellor Helmut Kohl owes his four successive election victories to his ability to maintain support across a broad swathe of conservative and centrist voters. No present-day French politician can match this appeal.

In one sense, the Balladur-Chirac duel reflects the inevitable frustration of like-minded politicians bidding for a prize they covet and suspect may be slipping away. But the squabble also reflects a wider failure of adaptation of the French political system. France badly needs an organised form of preselection of candidates for the presidential elections to avoid a damaging abundance of rivals from the same camp and give their policies clarity and coherence.

Another conservative hopeful, Mr Valéry Giscard d'Estaing, leader of the centre-right UDF grouping, has pointed out that the right has three times fielded rival candidates since 1958 and won. However, the proliferation of wounded pride and wounded egos on the right contributed to Mr François Mitterrand's success in the 1988 presidential election, and could conceivably prestage another conservative defeat next year.

Mr Charles Pasqua, the RPR interior minister, has suggested US-style primary elections to select the right's preferred candidate well in advance of the presidential poll. The idea has been given only a lukewarm reception, yet the right needs to end quickly the rivalry in its own ranks. Mr Balladur and Mr Chirac would be wise to back Mr Pasqua's proposal.

Mr Lloyd Bentsen, US Treasury secretary, thinks it is the best of times to hold his job.

"I'd say that the economic numbers are the best I've seen in 20 years. You see low inflation, good sustained growth in the economy, and major creation of jobs," he said this week.

But the economic statistics that Mr Bentsen finds so encouraging have failed to bring political benefits to the Clinton administration in the battle over next month's mid-term elections.

They have also spread alarm on Wall Street that the US economy may still be growing faster than can be sustained without sparking inflation. Bond investors are now convinced that the Federal Reserve needs to raise short-term interest rates in a hurry to keep inflation from breaking out.

This week they pushed long-term interest rates above 8 per cent for the first time in two and a half years, and the dollar fell to its lowest level against the yen since the second world war. New statistics published a week ago suggested that the 12 percentage points by which the Fed has already raised interest rates over the last eight months has failed to take the steam out of even the most rate-sensitive sector, housing construction.

In July, when Mr Alan Greenspan, Fed chairman, delivered his half-yearly testimony on monetary policy to Congress, the accepted economic wisdom - broadly shared by the Fed, the administration and a consensus of private sector forecasters - was that the economy would have a "soft landing".

At that time, the economy had already begun to slow down from the unsustainably high 4.1 per cent annualised growth rate of the second quarter this year. Even without further tightening of monetary policy by the Fed, the economy was thought to be slowing into a "glide path" of steady growth - between 2½ and 3½ per cent a year - before inflationary pressures had been given a chance to build up.

The problem with the soft landing scenario is that policymakers have rarely been able to achieve it in the past. Even if economists think it is a plausible outcome, it is not one that investors are ready to bet on.

The soft landing story has a better shot this time than at any time in the last 40 years, but it will take more than economic projections to convince the financial markets of the scenario in an investment sense," says Mr Allen Sinai, chief global economist with Lehman Brothers in New York.

Forecasters say the signals suggest the economy is running full steam ahead, close to or past the point at

## Haunted by spectre of inflation

Despite the US Treasury's cheerfulness, financial markets fear further interest rate rises, says George Graham

which pressure starts to build up on prices. September's housing starts, for example, were 4.4 per cent up on August.

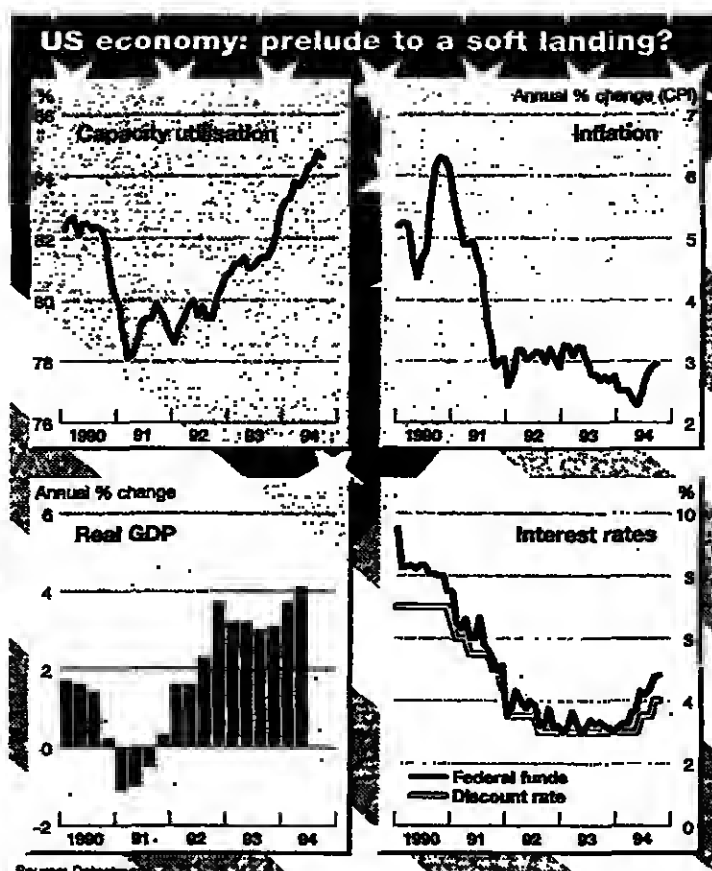
More significant is last month's fall in the unemployment rate to 5.9 per cent. There are doubts about the reliability of the unemployment statistics, because the Department of Labor changed its method of calculation at the start of this year. Nevertheless, the unemployment level is now at or below the "natural rate" at which most members of the Federal Open Markets Committee, the Fed's policy-setting body, believe the real slack in the labour market has been absorbed. Labour shortages and pressure for higher wages have already shown up in a few sectors.

US industry, meanwhile, was operating in September at 84.6 per cent of its capacity, according to the Fed's calculations. That is a shade lower than in August, but still close to the peaks reached in early 1989, before recession set in. It is also above - perhaps by more than 2½ percentage points - the rate at which some economists argue production bottlenecks will start to push up manufacturers' prices.

GDP growth in the third quarter is due to be announced by the Commerce Department tomorrow. The market consensus forecast, according to MMS International, the financial information company, is for 2.8 per cent annualised growth, a considerable slowdown from the second quarter's 4.1 per cent pace. Estimates have been edging up steadily over the last two weeks, and the financial markets are already worried about the possibility that growth has once again started to accelerate in the fourth quarter.

"If the weak quarters are 3 per cent and the strong quarters are over 4 per cent, then the trend is up in the 3½ per cent range, which is above what the Fed would like to see," says Mr James O'Sullivan, an economist with bankers J.P. Morgan in New York.

Despite the evidence of overheating, all the government's price indices show inflation is still under control. Consumer prices rose by 0.2 per cent in September for a year-on-year inflation rate of 3.0 per cent,



with core inflation (excluding volatile food and energy prices) also rising 0.2 per cent. At the wholesale level, too, core producer price inflation reached only 1.9 per cent year on year in September.

Employment cost statistics from the Labor Department show no sign of acceleration in wage inflation. Wages and salaries have risen by just 2.9 per cent over the past year, the department reported this week, and wage increases in important collective bargaining agreements signed in private industry during the past three months have averaged only 1.9 per cent a year.

But the financial markets tend to dismiss such inflation yardsticks as backward-looking measurements. They believe the Fed is "behind the

curve" in its efforts to choke off inflation before it picks up, and will be compelled to raise interest rates by at least half a percentage point at the next meeting of the FOMC on November 15 - and probably by as much again before the end of the year.

Not all the members of the FOMC share this view. Mr Alan Blinder, the Fed's vice-chairman, argued this week that, although the economy was showing fewer signs of deceleration than he would have thought a few months ago, it had to be remembered that monetary policy works with time lags.

"I think it probably is a fair interpretation of recent movements in the bond market that there are a number of people that trade bonds for a living that are in the 'behind

the curve' school... I'm not convinced that they are right," Mr Blinder said.

But other members of the FOMC are more impatient. Mr Alfred Broaddus, president of the Richmond Federal Reserve Bank, had wanted the Fed to raise rates at its July meeting instead of delaying its most recent move until August. More recently, he has sternly warned that it is not good enough for the Fed to accept a 3 per cent inflation rate.

One reason why the Fed's five interest rate increases so far this year have failed to take the steam even out of sectors sensitive to interest rates, such as housing, is a steady loosening of bank credit. Banks have made credit easier to obtain and have narrowed their lending margins, taking some of the sting out of the Fed's actions.

This is a mirror image of the recession of 1981 and 1982, when a "credit crunch" caused by banks' tight lending policies reduced the impact of the Fed's efforts to stimulate the economy through lower interest rates. Then, the Fed was forced to cut further than it might otherwise have done. This time, the Fed may have to raise rates further than it might otherwise have done to offset these easy credit conditions - leading Mr Greenspan and other FOMC members to issue a stream of warnings in recent weeks about looser loan standards.

"Now the chairman is worrying in public that banks are becoming overly lax in credit standards," comments Mr John Lipsky, chief economist at Salomon Brothers. "By analogy with his earlier action, it sounds as if he is setting the stage for more aggressive tightening."

For the Clinton administration, there is little room to quarrel with the Fed over another increase in interest rates. "We share the same objectives as the Fed of low inflation and long-term economic growth," said Mr Bentsen.

Administration economists are even more convinced than the Fed that inflation is well under control. They argue that heavy investment in business equipment this year will raise the economy's capacity next year and ease fears of bottlenecks.

But even congressional Democrats, who complained earlier in the year that the Fed was trying to kill off the recovery, say that, because of the evidence that the recovery remains strong, they are unlikely to object to a November increase.

No one in the administration, after all, wants to see the kind of rapid growth that would inevitably be followed by harsh Fed tightening and a recession, just in time for 1996's presidential election.

David Buchan argues that France regards virtually all tactics as fair in trade policy

## War by other means

How often this year coincides with the ritual of the Night of the Long Knives when newly appointed European commissioners carve up the portfolios - and themselves.

Mr Jacques Santer, the new Commission president who will allocate the jobs this week, has recently had a timely reminder of why entrusting Europe's trade and industry policy to a French commissioner would be widely considered as daft as putting a Briton in charge of farm policy.

France has threatened to veto an international agreement to scrap shipbuilding subsidies painstakingly negotiated by the outgoing Commission with other industrial countries.

Mr Alain Lamassoure, France's European Union affairs minister, has promised French MPs that he is ready to invoke "vital national interests" to block the agreement. Yet the sector employs just 5,800 people out of a total workforce of nearly 20m.

French presidential politics are partly to blame. Mr Jacques Chirac, who is rivaling Prime Minister Edouard Balladur to be the main

conservative candidate in next spring's presidential election, has for reasons best known to himself made support for French shipbuilding an obsessional part of his campaign for the Elysée. Mr Balladur believes he must match him in this obsession.

But in fighting to retain subsidies for shipbuilding, both men follow in a long tradition of state interventionism that goes back to the 17th century and Jean-Baptiste Colbert, Louis XIV's economic overlord. Colbert subsidised many shipbuilding and shipowning companies, which all collapsed when his death brought the subsidies to an end. Some would argue this showed the pointlessness of creating such artificial companies in the first place. Others - including the present French government - seem to see the real error in putting a stop to subsidies.

Yet the Colbertin sense of being in a permanent economic struggle with other countries still pervades modern French thinking to a remarkable degree. The only difference is that France's chief economic enemies today are the US and Japan; in Jean-Baptiste's day, it was England and Holland.

Earlier this month, France's economic and ministerial sponsors a teach-in on "economic war" in Paris. This showed that the French - in a way that is both admirable and irritating - refuse to

France believes that foreign competitors are waging total economic war against the country

sit on the laurels of their undoubted achievements in foreign trade, which include last year's FF60bn (£10bn) trade surplus resulting in spite of a generally strong franc.

France believes that foreign competitors are waging total economic war against the country, and therefore regards virtually all tactics as fair in parrying these attacks. Gen-

eral François Mitterrand, the retired head of France's DGSE intelligence service, which was once accused of spying on US industry, told the conference that France should have "two hands up" in mobilising all its resources in the battle for foreign contracts.

The French sense that world trade is somehow unfair is reinforced in an area dear to Colbert's heart - luxury goods. Mercantilists such as Colbert believed that a country should run a payments surplus to gain gold to pay mercenaries or bribe enemies in time of war. But Colbert added the refinement that the surplus should be in luxury goods which are, by definition, not essential to any war effort and might have the added benefit of rendering foreign consumers more effete.

Three centuries later, France has half the world market in luxury goods, according to the aptly named Colbert Committee which represents French fashion, perfume, wines and spirits companies. Many of these products are easy

to fake, leaving the country exposed to counterfeiting. And France has taken draconian measures this year against counterfeiters.

However, economic nationalism has become harder to justify with international co-operation in industries such as aerospace and defence. Their products commonly have components from several different European countries.

The view increasingly proclaimed in France, therefore, is that in aerospace and defence, all Europeans are on the same side. They face a common enemy in an American industry that is determined to offset the sharp contraction in its home defence market by killing off European competitors, with Washington using or abusing political influence in US client states where necessary.

Giving substance to this Euro-rhetoric, France opened last week's biennial navy equipment exhibition in Paris to other European defence companies under the name of "Euronaval".

It is perhaps a pity that Mr Santer does not have a defence dossier to distribute, because there the French are certainly thinking European.

## Been there, done that

■ Brazilians could be forgiven an uneasy twinge of déjà vu. While former president Fernando Collor lives as a recluse in the capital Brasilia following his 1992 resignation amid corruption charges, his younger brother is now following in his footsteps.

Pedro Collor, who failed to win election to the legislative assembly of the poor northern state of Alagoas in elections earlier this month, has been given the consolation prize of Secretary of Industry and Commerce in the state government. This is precisely the same job which gave Fernando Collor his start in politics in 1976.

There is little chance of the two brothers teaming up. It was Pedro who made the initial, ruinous allegations against his brother, apparently sparked by a family row; they have apparently not spoken for some time. Fernando, meanwhile, is still smarting from a court decision earlier this year to uphold an eight-year ban preventing him holding political office.

## Sunny side up

■ Things are really starting to look up for Kelvin MacKenzie. The former president of the Sun, an admirer of Lady Thatcher and all that she stood for, MacKenzie's

departure from News Corporation via the BSkyB satellite company left him without any big pay-offs or share options.

Fortunately, he has ended up at the Mirror Group which, despite its left-leaning stance, knows how to motivate its heavy hitters. MacKenzie has been showered with 155,038 share options at 125p which means that he is already sitting on a £24,000 paper profit.

Even so, how Kelvin must envy David Montgomery, his new boss and former chief sub on The Sun. Not only is Montgomery younger than MacKenzie, but his entry in Who's Who is more than five times as big and he has 10 times as many share options at less than half the price. Should have jumped ship earlier, Kelvin.

## Boxing clever

■ First it's gnomes, now it's coffins. Naughty Poland - whose garden gnomes were recently forbidden entry to Germany - is now exporting too many coffins. Germany's coffin-makers are even less happy than normal.

The Germans complain that the quality of the Polish boxes is not up to German standards; they used the same complaint to stop an invasion of Polish gnomes.

The fact that Polish coffins may be cheaper has obviously impressed consumers - who spend DM20bn a year on the paraphernalia of death - but the coffin-makers, like

## OBSERVER



"Even if you're cleared, you'll always be sleazy to me"

countless other producers in Germany, seem not to have noticed.

## Non-accountable

■ The management jargon introduced by David O'Brien to the National and Provincial Building Society has unfortunately survived his abrupt departure as chief executive - but at least some of the staff have turned to plain speaking. Writing to head office to report "opportunities to engage" - or new business contacts as other organisations might put it - the branches in east Kent are refreshing in their

straight-forwardness. "Relationship built with HM prison; 30 accounts opened," they say. "It should have been 31 but inmate Tom was busy shoplifting in Brent Cross."

## Tunnel vision

■ Cliff Walker, chief executive of BM Group, has seen the light at the end of tunnel. After a year of desperate measures to reduce the engineering company's £160m debt mountain, Walker has decided to make a clean break with the past by renaming his company Brunel Holdings. Apparently, the idea came to him when he was stuck in a railway tunnel near the company's West Country headquarters - built by none other than the legendary engineer Isambard Kingdom Brunel. Suppose anything's better than re-adopting the old Blackwood Hodge name?

## Corporate largesse

■ What do elderly business tycoons talk about at lunch? According to Melvyn Marcus, City editor of The Times, Lough's Tiny Rowland and Harrods boss Mohamed Fayed were lunching together last week when the conversation turned to the subject of penis transplants. According to a report in The Times, Fayed told Rowland that he had asked the Mayo clinic in the US whether he could have a "larger penis". Since Melvyn Marcus used

to work for Rowland as City editor of the Observer (before Lough sold it to the Guardian), presumably he would not misquote his former boss.

Those who know Fayed well are not surprised by such a line of conversation. However, one wonders what members of the Royal family and other patrons of Harrods make of such talk? Poor old Gerald Ratner only had to admit that some of his jewellery was "crap" and his career was cut short.

## Ritzly

■ Heartened by the prompt response to yesterday's query about when is a quango not a quango - a six-page briefing paper from the Cabinet Office had arrived before morning coffee - Observer is now seeking an official definition of sleaze.

According to Cassell's Concise English dictionary, it is anything which is squalid, distasteful, or disreputable. Since this could apply to the behaviour of most MPs, let alone members of the Tory government, Observer is looking for something more specific. What does the word stand for?

One reader has suggested that it is short for "stay literally everywhere at zero expense". The best contribution will win a bottle of malt and be passed on to the Cabinet Office. Who knows, it might even find its way into another briefing paper.



Networking?  
NetWare 4,  
of course.

# FINANCIAL TIMES

Thursday October 27 1994

CELEBRATES ITS  
100TH OPENING

Leakage may not be as large as early US estimates

## Russian officials to lead Arctic oil spill clean-up

By Reuters in Moscow  
and Karen Fossli in Oslo

Russian officials flew to the northern region of Komi yesterday to head the operation to control an oil spill that environmentalists say could have a disastrous impact on the fragile Arctic environment.

Concern is growing that winter snow could soon prevent any clean-up of oil slicks blanketing vast areas of tundra. "If something has to be done, it has to be done right now," said Ms Valentina Semyschikina, head of a conservation group for the Pechora River. Oil has spilled into a tributary of the Pechora, Europe's richest salmon river, and may reach it.

She said oil leaking into the river, more than 1,000km north-east of Moscow, could pour into the Barents Sea. "This has happened before," she said. The

latest spillage occurred on October 1 when heavy rains caused the collapse of a reservoir containing oil that had leaked from a pipeline near the town of Usinsk. Meanwhile, doubts grew yesterday over US estimates that the spill could be one of the biggest ever. "There are all these fairy stories about a leak of 200,000 tonnes of oil - that is what oil workers there produce in one month. It is stupid," said Mr Nikolai Balin, head of the Komi state committee for environment. "The most plausible figure is 14,000 tonnes."

In Norway, which closely monitors Russian oil spills, officials said there were no plans to lend assistance to the area unless requested by Moscow. "We do not at the moment see any acute threat to the Barents Sea," said Mr Per Antonson, an adviser at the Norwegian environment ministry in charge of

disaster co-operation with Russia. "We are alarmed by the spill, but we have to make our priorities. We have to remain calm and await further information."

Norwegian officials said yesterday they had received a report from Moscow estimating that between 14,000 tonnes and 60,000 tonnes of oil had leaked from a pipeline over an area of 650 km. They believed that 14,000 tonnes was not enough to cover such a large area and that the oil spill was probably closer to 60,000 tonnes. One US estimate has the spill at 200,000 tonnes, but the Norwegians regard this figure as an exaggeration.

Moscow told Norway yesterday that about 140 people from the Komi civil defence had been working with buckets and vacuum pipes to contain the spill, but had to abandon clean-up work because of cold weather, ice and snow.

## Britain urged to curb road transport

By Charles Batchelor,  
Transport Correspondent  
and David Lascelles,  
Resources Editor

An environmental commission sponsored by the British government has recommended a doubling of petrol prices in real terms, a halving of spending on main roads, and a big increase in subsidies to buses and trains.

The 300-page report of the Royal Commission on Environmental Pollution, published yesterday, says present transport policies threaten serious damage to the environment. Radical change is needed to preserve the quality of life for future generations, the commission says.

Sir John Houghton, commission chairman, said: "We must be found to make the longer-term development of transport environmentally sustainable." The report is the most fundamental review of Britain's transport policy for more than a decade. It makes 110 recommendations, the main thrust being to load costs on to road transport and encourage a shift to public transport and "green" modes such as cycling and walking.

Many of the recommendations run counter to government policy. The government gave the report a guarded welcome. Dr Brian Mawhinney, transport secretary, said: "I welcome this report as an important contribution to the broader debate which we are going to have on how we are going to balance the economic benefits and personal freedom that roads can bring with the need for environmental protection."

Motorists' and road haulage organisations criticised the report, but it was welcomed by environmental groups.

As part of its strategy, the commission recommends the setting of "demanding but achievable" targets for improving air quality, reducing road deaths and noise and switching travel from roads. They include a reduction in carbon dioxide emissions from cars and lorries to 80 per cent of 1990 levels in 2020 and a 40 per cent increase in the fuel efficiency of new cars by 2005.

It recommends a doubling of transport fuel prices by 2005, tighter EU emission limits for all new vehicles, heavy investment in making public transport more attractive, and an extra £2bn a year in fare subsidies.

High-octane unleaded petrol should be banned, the report said, echoing a report yesterday from a parliamentary committee. Criticising yesterday's report, the Royal Automobile Club said it was "wide of the mark on targets and solutions" and "unrealistic about the scope and time-tables for change."

Environmental and pro-rail groups welcomed the findings. Carmakers scorn efficiency target, Page 8  
Editorial Comment, Page 15

THE LEX COLUMN

## Ford's global drive

Ford's better than expected third-quarter results indicate bright domestic and overseas prospects that could eventually allow the company to outpace General Motors and Chrysler. The group only slightly lags its Japanese rivals in productivity and has become the US's most cost-efficient indigenous vehicle maker. That its north American product mix remains weak explains why Ford's US net profit per unit, excluding financial earnings, were just \$575 compared with Chrysler's \$1,013. But the gap should close over the next 12 months as Ford launches a string of new, high-margin vehicles.

Ford may make progress at home, but its best prospects are overseas. The group should benefit from the upturn in Europe, where GM is struggling and Chrysler has minimal presence. Ford is also positioning itself early in the fast-growing Asian market, with its 24.5 per cent stake in Mazda and recently announced ventures in India and China. The company aims to speed up and cut the cost of new model development. If it can amortise this investment by marketing the vehicles across the globe, it could achieve large economies of scale similar to those achieved by Japanese manufacturers.

Implementation will not be easy. The required internal revolution is starting at a time of increasingly bitter competition at home and abroad, as rivals add capacity in many of their markets. The temptation will be to respond by radically customising models to meet regional tastes, as happened when Ford tried to make the Escort a global car in the 1980s. Ford must ensure such distractions do not deflect it from its current path.

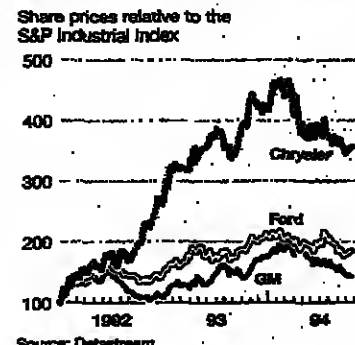
### New issues

The publicity surrounding recent flotation disasters has tended to leave the impression that investing in UK new issues has become a quick way to lose money. Yet analysts of all this year's flotations produce a rather different picture. On average, they have outperformed the market, albeit by a whisker. But while the proportion of deals may not be abnormal, the scale of the losses on the flops has undoubtedly done some damage.

By putting bad apples into the market, sponsors have soured the institutions which are now looking much more carefully at the new goods they offer. And it is not just those involved in the disasters that suffer. Because

FT-SE Index: 2999.9 (-1.0)

US automotive manufacturers



Source: Datastream

some sponsors have been less fastidious than they ought, the prices of good quality flotations have been forced down, raising the cost of capital across the market.

There seems to have been a specific problem with management buy-outs. This may reflect the fact that by the end of last year stock market valuations were so much higher than trade sale prices that venture capital backers floated businesses which were not cut out to be independent quoted companies.

In addition to the pressure on prices, the disasters have resulted in some marginal floats being pulled. The fact that new issues since May have come off so well suggests the market has already corrected itself. Sceptical institutions reply that problems take time to show through. But then they have every interest in talking prices down further.

### UBS

The battle over Union Bank of Switzerland's special voting shares could be moving in the board's favour. Mr Martin Ebner, the Zurich financier, has accumulated a large position in the bank's registered shares - which have extra voting power - with the aim of forcing changes in UBS's strategy. The board has countered by pushing for the abolition of the registered shares' privileges and their conversion into bearer shares. Yesterday, following the publication of the board's latest missive on the subject, the premium enjoyed by the registered shares over bearer shares sank to 15 per cent. For most of the year, the premium has

been over 25 per cent. UBS's desire for a single class of shares is all very well. But its method of achieving it flies in the face of natural justice. The change in share structure will be put to a combined vote by both bearer and registered investors. That means the registered shares could lose their privileges, even if most vote against the board's proposal at next month's shareholder meeting.

UBS argues that the new share structure would benefit the registered shareholders because it would stop Mr Ebner forcing a change in strategy that would damage the bank. That seems implausible, since the premium enjoyed by the registered shares would vanish completely if the board carried the day. The least UBS should do is allow registered shareholders a separate vote on the proposals. If the board is so confident in its case, it should have nothing to fear.

### Lloyd's

Citibank still has some work to do on its scheme for allowing Lloyd's Names to convert to limited liability status. But it is the sort of arrangement that should appeal to many existing Names. Those hardened gamblers looking to get the most out of the market's recovery may want to reinvent their unlimited liability. This enables them to write business representing up to five times the funds lodged with Lloyd's. The Citibank scheme will offer pooling of only 2:1 though it may be possible to increase it to 3:1 through the use of a reinsurance contract. But such returns may well be attractive enough for existing Names who are no longer prepared to put their last collar stud at risk.

Similar schemes are less likely to appeal to potential new investors in the market even if Lloyd's reduced the limit on new limited liability members from the current £1.5m. Though the new breed of Lloyd's corporate vehicles have not proved particularly popular with private individuals, they should offer new investors similar potential returns as under the Citibank scheme. They also have the important advantage that investors can sell all or some of their interest at any time.

For Lloyd's itself, such schemes should slow the loss of capital put up by Names. But they will do nothing to curb the market's high costs. Administering the affairs of thousands of tiny companies will be just as expensive as dealing with a multitude of Names.

## Why bouncing cheques rock Taiwan's market confidence

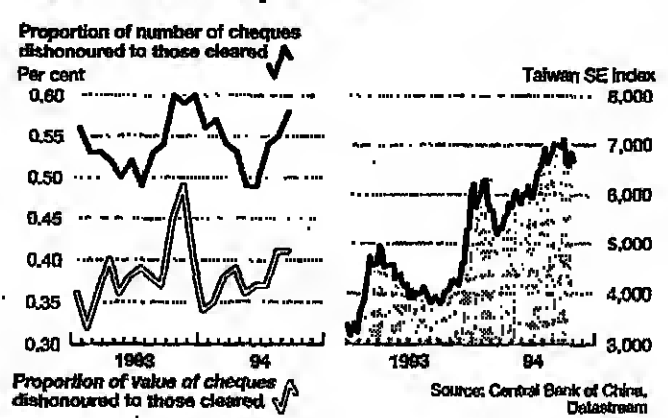
By Laura Tyson in Taipei

In Taiwan, where reliable financial indicators are hard to come by, the bounced cheque ratio moves markets. For the island's underground financiers and above-ground brokers, yesterday's ratio announcement was bad news - a 10-month high at 0.88 per cent.

It was a report of a brokerage's bouncing cheque that prompted a 14.7 per cent fall in stock prices earlier this month. And for a Chinese society with traditional regard for financial tangibles, defaulting on a cheque carries a social penalty and, until a few years ago, was a criminal offence.

The ratio is compiled by the Central Bank of China, which measures the bouncing by number of cheques issued and the total amount dishonoured. By value, September's defaults reached 0.41 per cent of the total, the same as August, which was the highest since November 1993. Credit against post-dated cheques is the most common form of short-term financing in Taiwan. The instrument is commonly used as collateral for loans from underground financiers - black market moneylenders - especially for share purchases -

### The bounced-cheque index



hence the correlation between stock market confidence and the rate of cheque defaults.

This month's share payment default scandal was started by a T\$200m (\$8m) bounced cheque from Hung Fu Securities, a local brokerage firm, presented to the Taiwan Stock Exchange. The episode set off a chain reaction among other brokerages, and the defaults over a couple of days were estimated at T\$7.6bn.

A US banker explained that a company's bounce history is an important source of background

information. Taiwan does not have an established credit information or rating system, and checking records for defaults is one of the few formal ways of assessing creditworthiness.

The ratio, the banker said, is akin to the bankruptcy rate in the US and an index of "prosperity" in a society that has hoarded foreign reserves of \$90.9bn, as at the end of August.

In 1987, the law was changed to make bouncing a cheque merely a civil matter. But the power of the paper and the stigma remain.

## Securum plans \$2.8bn debt refinancing

Continued from Page 1

ish government. Under the international tranche, Chemical Bank and Enskilda Corporate will arrange a \$1.4bn 5-year syndicated term loan. Enskilda Corporate and Nordbank will also arrange a SKr10bn domestic financing pro-

gramme over 10 years. This will be split between a SKr5bn subordinated term loan and a SKr5bn subordinated private placement.

Securum made a SKr6.3bn profit in the first six months, surpassing initial forecasts with low interest rates and astute dealing.

It has moved from being a finance company to an invest-

ment and real estate holding group after converting most of its sour loans into assets.

The refinancing is seen as a significant vote of confidence in its future. "Despite the state guarantee, we would not have been able to carry out a refinancing of this size without a sound balance sheet," said Mr Nyren.

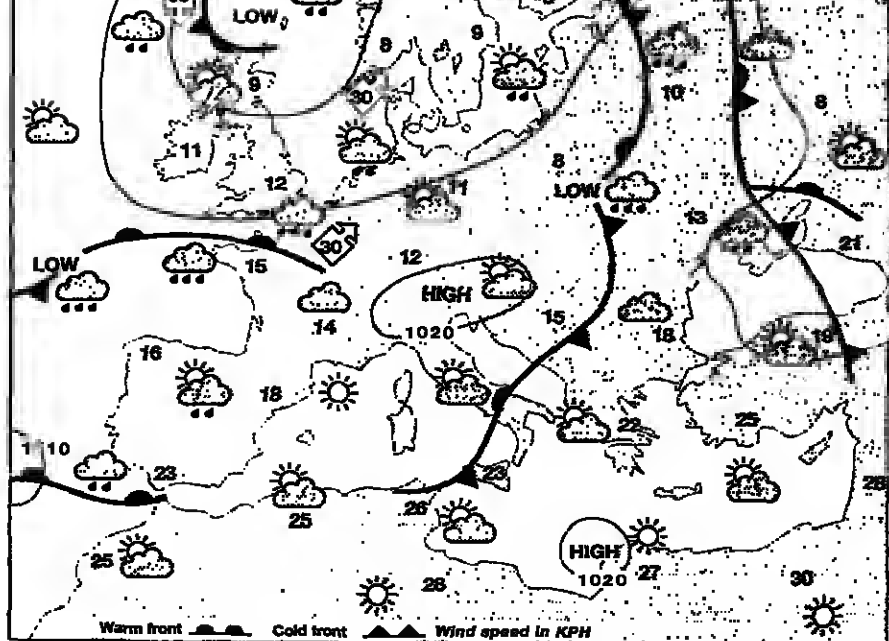
### Europe today

Low pressure just north of Scotland will feed cool and unstable air into north-west Europe. Showers will prevail in the UK and Ireland as well as along the Channel. Adjacent areas of France, Belgium and the Netherlands will have a lot of rain with temperatures staying around 10C-12C. A south-westerly flow will move mild air into Scandinavia, producing cloud over most of the Scandinavian countries. Showers will affect the southern Norwegian and Swedish coasts. The Mediterranean region will see a lot of sun but there will be cold showers in southern Portugal and south-west Spain. Showers are also expected in western Greece.

### Five-day forecast

Europe will stay unsettled for the rest of the week. The low near Scotland will weaken gradually while moving north-east, leading to fair conditions in most of Europe during the weekend. However, a new low will approach from the Atlantic. On Sunday, the frontal system with this low will reach the UK causing cloud and some rain. Southern France, Spain and Italy will stay sunny and dry.

### FT WEATHER GUIDE



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

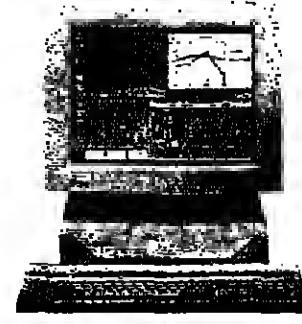
Abu Dhabi	sun	33	Belgrade	drizzle	17	Caracas	showers	32	Faro	showers	17	London	cloudy	11	Madrid	cloudy	17	Rangoon	fair	34
Accra	cloudy	31	Berlin	cloudy	11	Casablanca	cloudy	23	Frankfurt	cloudy	11	Geneva	cloudy	11	Malorca	fair	21	Reykjavik	showers	2
Algiers	fair	25	Bombay	showers	26	Chicago	cloudy	14	Glasgow	showers	10	Hamburg	cloudy	10	Manila	cloudy	32	Rio	fair	26
Amsterdam	showers	12	Bogota	showers	21	Cologne	cloudy	11	Hong Kong	fair	27	Dakar	cloudy	31	Melbourne	showers	30	S. Frisco	sun	21
Athens	fair	23	Buenos Aires	showers	12	Dallas	cloudy	11	Honolulu	fair	32	Delhi	sun	33	Moscow	cloudy	10	Singapore	showers	32
Atlanta	fair	25	Dubai	sun	32	Helsinki	cloudy	10	Istanbul	cloudy	10	Dubai	sun	32	Osaka	fair	27	Stockholm	fair	9
B. Aires	fair	18	Edinburgh	showers	10	Jakarta	cloudy	20	Jersey	rain	13	Hong Kong	fair	27	Manila	cloudy	32	Sydney	drizzle	13
Bhutan	showers	11	Los Angeles	cloudy	22	Kobe	cloudy	10	Kuala Lumpur	showers	28	London	cloudy	11	Mumbai	showers	32	Taipei	sun	33
Bangkok	showers	31	Lima	cloudy	22	Kyoto	cloudy	19	Madras	showers	28	London	cloudy	11	Montreal	showers	12	Tokyo	cloudy	19
Barcelona	fair	18	Lisbon	cloudy	18	Nairobi	cloudy	19	Manila	cloudy	32	London	cloudy	11	Nassau	showers	12	Toronto	showers	11
			Luxembourg	cloudy	9	Nice	cloudy	17	Manila	cloudy	32	London	cloudy	11	New York	showers	12	Vancouver	showers	12
			Lyon	cloudy	13	Nicosia	showers	18	Manila	cloudy	32	London	cloudy	11	Osaka	fair	27	Vladivostok	showers	12
			Madrid	cloudy	11	Paris	cloudy	14	Manila	cloudy	32	London	cloudy	11	Perth	showers	12	Wellington	showers	12
						Prague	cloudy	11	Manila	cloudy	32	London	cloudy	11	Stockholm	fair	9	Winnipeg	showers	12
									Manila	cloudy	32	London	cloudy	11	Sydney	drizzle	13	Zurich	drizzle	11

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# FINANCIAL TIMES COMPANIES & MARKETS

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Thursday October 27 1994

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**Telford.**

## IN BRIEF

## FTC agrees to \$4bn Eli Lilly deal

Eli Lilly, the US drug company, has reached an outline agreement with the US Federal Trade Commission which will allow it to go ahead with the planned \$4bn acquisition of PCS, a pharmaceutical distributor. Page 22

## LCOs hit sharp 55%

Sharp, the Japanese consumer electronics manufacturer, increased nonconsolidated recurring profits by 55 per cent thanks to buoyant demand for its liquid crystal display panels and other electronic devices. Page 23

**Shareholders accept Packer's merger plan**  
Mr Kerry Packer's plan to merge his two publicly quoted media companies into a \$42bn (US\$1.47bn) combined group was accepted without questions by shareholders yesterday. Page 23

**Lion Nathan expands into China**  
Lion Nathan, the biggest brewer in Australia and New Zealand, is planning up to three breweries in China as a way of diversifying from its mature home beer markets. Page 23

**Arco takes stake in Chinese refinery**  
Atlantic Richfield (Arco), the US oil and natural gas group, has conditionally taken up 237.6m shares in Zhenhai Refining and Chemical Company, one of the biggest refineries in China. Page 23

**Packaging and construction lifts Tenneco**  
Tenneco, the diversified US industrial group, had its best third quarter in 11 years as its packaging and construction and farm equipment divisions outperformed expectations. Page 22

**US drugs groups post solid sales growth**  
Marion Merrell Dow and Rhône-Poulenc Rorer, the US pharmaceutical groups, both showed solid revenue gains in the third quarter, but only RPR, a subsidiary of France's Rhône-Poulenc, was able to boost its bottom line. Page 22

**Anheuser-Busch income to record**  
Anheuser-Busch cemented its position as the top brewer in the US during the third quarter, reporting record sales and profits. Page 20

**Procter & Gamble 18% ahead**  
Accelerating volume growth produced a record quarter at Procter & Gamble, the US consumer products group, with net earnings up 18 per cent. Page 20

**US BFI group warns Attwoods investors**  
Browning-Ferris Industries, the US waste group, is warning Attwoods investors, yesterday sought to steal a march on the UK company by urging investors to be wary of promises made in fighting off the \$264m cash bid. Page 25

**Stock Shop puts best foot forward**  
The 1980s UK retailing phenomenon which collapsed four years ago, could come back to the market. Page 25

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## Chief price changes yesterday

FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354

New York prices at 12.30pm

FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354
FTSE 100	2354	FTSE 100	2354
FTSE 250	2354	FTSE 250	2354

## DuPont chemical earnings up 97%

By Tony Jackson in New York

DuPont of the US, the world's largest chemical company, confirmed the strength of the cyclical upswing in its industry with a 97 per cent jump in third quarter net earnings from its chemical operations.

The upswing was partly offset by a 5 per cent drop in earnings from its Conoco oil subsidiary. Net earnings before extraordinary items were up 86 per cent at \$680m.

The rise in chemical profits was driven by higher volumes

and by reduced fixed costs, the company said, with the two factors contributing equally. However, selling prices remained flat despite sharp volume increases.

The rise in group earnings was helped by a sharp turnaround in DuPont's diversified businesses division, where profits jumped from \$8m to \$125m. The company said this was due to the recovery in its coal mining business, hit by strikes last year, and better profits in agrochemicals and medical products.

In DuPont's own narrowly defined chemicals division, earnings were up 126 per cent at \$104m. Volume was up 9 per cent, with a 4 per cent rise in the US and a 27 per cent rise in the rest of the world. Prices were up 2 per cent.

In the polymers division, earnings were up 149 per cent at \$177m. Volume was up 15 per cent, made up of 11 per cent in the US and 21 per cent elsewhere. Prices, however, were 1 per cent lower. Earnings in the fibres division were up 50 per cent at \$154m. Volume was 6 per cent higher and prices were static.

Oil earnings were down 5 per cent overall at \$172m, with a 23 per cent drop in upstream earnings and a 22 per cent rise in downstream earnings. Upstream operations were hit by lower gas volume, lower crude oil volume in the US and higher exploration costs. Downstream earnings were helped by bigger US margins in refined products and higher turnover at the group's refineries.

DuPont said that while chemicals prices were flat year-on-year, they were up modestly from their low point in the second quarter. A number of price increases had been announced for the third

and fourth quarters. The company said: "This is a period of some cost push, and growing demand". "My guess is that in a year's time you'll see prices up by a few percentage points at least."

In the third quarter of last year DuPont made charges of \$1.5bn to cover job cuts and other restructuring costs.

In July, it said it was cutting 1,200 jobs at its European nylon operations. Yesterday, the company said the period of job losses appeared to be drawing to a close.

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## Ford soars to record \$1.1bn in quarter

By Richard Waters in New York

Ford Motor, the US's second highest carmaker, reported record after-tax profits for the third quarter. It was lifted by strong demand for new vehicles in North America and a continuing recovery in Europe.

Mr David McCammon, treasurer, said sales and profits were likely to grow for some time to come. "Unless interest rates go way up, this recovery will be sustained for three, four, five more years", he said.

There was no sign that the rise so far seen in US interest rates had dented demand, he added. Ford's results also reflected earnings reported by Chrysler two weeks ago, though General Motors, the US's biggest car and truck maker, saw its recovery falter during the three months to September 30.

Overall, Ford's after-tax profits jumped to \$1.1bn, 2½ times their level of a year ago. The biggest factor behind the increase was a \$245m improvement in profits from vehicle sales in North America, which reached \$329m. A 17 per cent increase in vehicle sales and lower discounts offered to customers drove the improvement. The North American results also reflected lower purchasing costs and the fact that advertising spending rose less rapidly than sales.

Leaving aside losses at Jaguar, Ford earned \$25m in Europe - the first time it has not reported a third-quarter loss for five years. The summer period, with its model changeovers, is traditionally the weakest period of the year for carmakers.

"In Europe, sales are still 1.5m (vehicles) a year below what we consider to be normal - there's lots of improvement to come", Mr McCammon said. Jaguar, which launched a model during the period, lost \$53m, compared with \$43m (before a restructuring charge) the year before.

Results were lifted by record earnings in financial services, which climbed 34 per cent to \$523m. This partly reflected higher leasing and other financing earnings linked to the sale of more vehicles.

The financing business added \$290 of profit for each vehicle Ford sold in the US during the quarter, taking the total profit per vehicle to \$865. Earnings of \$1.04 a share, up from 40 cents a year ago, were recorded on sales of \$30.6bn, up from \$24.5bn. Lex, Page 16; Ford of Europe, Page 18

## David Buchan sees Seita stub out foreign hopes

### France lights up tobacco sell-off

The French government yesterday lit the match for an eventual sale of Seita, the French state tobacco company - but privatisation of the 183-year-old concern may, like one of its own Gauloise cigarettes, be a slow burn.

Mr Edmond Alphandery, the economy minister, said yesterday he was opening the tendering for French and foreign banks to advise the government on the sale of Seita, which has already chosen Crédit Commercial de France and Société Générale to advise it.

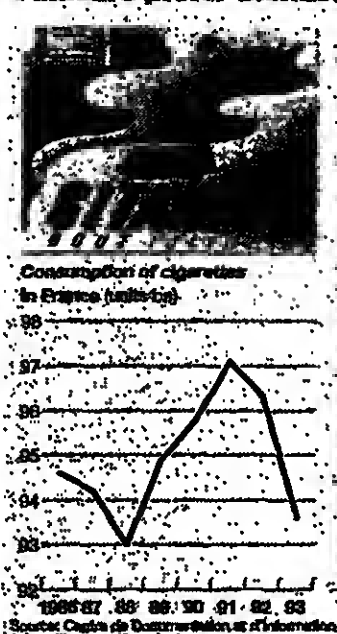
Seita has thrown cold water on the enthusiasm of the world's tobacco giants by saying it wanted "no foreign tobacco maker" to take a stake.

It confirmed that it would like the state to keep nearly 10 per cent of its 100 per cent stake, leave about the same for its employees, and award 25-30 per cent to a core group of stable shareholders who might include foreign institutions.

Foreign tobacco groups would otherwise be keen to take a stake in a Seita, which distributes other companies' cigarettes and has the added cashflow bonus of being a collector of taxes. In particular, BAT Industries, the UK-based tobacco conglomerate, appeared to see its 1993 "financial" investment in the Banque Nationale de Paris privatisation as smoothing its path politically to an "industrial" investment in Seita.

The decision to keep foreign manufacturers out is not just because Seita considers itself,

### Fumeurs prefer blondes

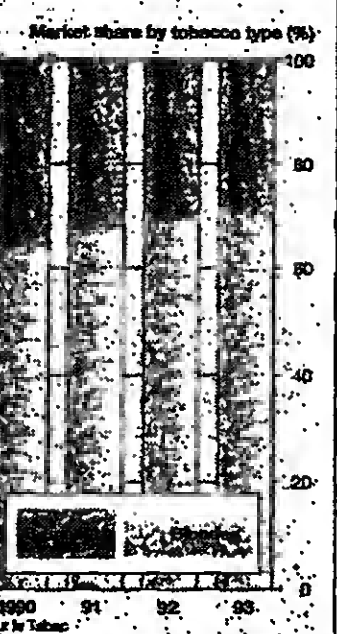


with its Gauloises, Citaines, its Alain Delon brand of cigarette and its Johnny Hollywood lighter, as much part of the French heritage as camembert cheese.

With privatisation, Seita will lose its legal monopoly on tobacco manufacture in France, a right that has become meaningless with the free entry into France of cigarettes made in other European countries. But it intends to keep its de facto monopoly on distribution of cigarettes in France to the country's 36,500 tobacconists.

Allowing foreign cigarette makers into the capital would jeopardise the neutrality of its distribution system, says Seita, while adding nothing in terms of external expansion. Seita already has production and marketing agreements with BAT in Germany, with Reemtsma of Germany in several markets in western Europe and now in eastern Europe, and with Japan Tobacco in Japan.

### Market share by tobacco type (%)



But Philip Morris, the US tobacco giant, recently threatened to break its distribution agreement with Seita if the latter took in another foreign tobacco company as a shareholder. Seita denies coming under such pressure, but some industry analysts believe that Philip Morris, which has 29 per cent of the French market (behind Seita's 45 per cent), could have carried out its threat.

Distribution is certainly a money-spinner for Seita, whose profits rose from FF447m in 1992 to FF585m (€110m) last year on turnover that increased from FF13.9bn to FF14.1bn.

Seita also collects the 75 per cent rate of state tax levied on total tobacco sales - FF63bn last year - passing it on to the state with a two to three-week delay.

The privilege of being able to play with the taxpayer's money for that period accounted for FF700m of Seita's profit last year.

## Saab on course for profit as sales of new model take off

By Christopher Brown-Humes in Stockholm

Saab Automobile, the Swedish carmaker, yesterday announced a SEK284m (\$39.4m) pre-tax profit for the first nine months and said it was on course for its first full-year profit in six years.

The result was a SEK1.34bn improvement on 1993's figures and reflected cost-cutting, higher sales volumes and the weakness of the Swedish krona.

The third-quarter profit of SEK144m was the group's second successive quarterly surplus. Saab's losses had dated back to 1989, when General Motors of the US became a joint owner in

the company, alongside Saab-Scania. In the third quarter of 1993 the group made a SEK368m loss.

Saab's turnaround was reflected in higher sales for the nine months, which rose to SEK13.06bn from SEK11.47bn. Retail sales jumped 24 per cent to 65,700 units from 52,950.

The success of the group's new 900 model, launched last year, was the most significant factor in the upturn. It accounted for 40,800 sales in the nine-month period, compared with 25,100 for the older and bigger Saab 900.

The company expects to sell about 92,000 cars to 1994, comfortably surpassing last year's

73,600 and the break-even level of 83,000.

At one point the group hoped 1994 sales might climb as high as 95,000. A shortage of convertible and 4-door 900 models, particularly in the important US market, is the main reason it expects to fall short of this level.

US sales are expected to reach 23,000, compared with 16,000 last year. The group's other improving markets include Sweden - where nine-month sales rose to 12,300 from 7,000 - Taiwan, Australia and Italy.

The company said the weaker dollar would only have a limited impact on its 1994 figures, partly because of hedging.

## Stanhope to show net assets

By Simon London in London

Stanhope, the property development company which is in last-ditch refinancing negotiations with its banks, is expected to return to positive net assets when it announces full-year results.

Such a result would strengthen the company's position as it searches for a partner willing to inject up to £100m (\$160m) of equity on terms that will satisfy banks owed £140m.

A refinancing must be agreed if its syndicate of 16 lending banks, led by Barclays, are to extend credit lines beyond December 19. Stanhope's main assets are held in its 50 per cent stake in Broadgate Properties, which owns much of the Broadgate and Ludgate office developments in the City of London.

Broadgate Properties' results, which are due to be published today, are expected to show a rise

in net assets, including loans from shareholders, to more than £230m, from £148m last year.

Analysts estimated yesterday that this would be enough to lift Stanhope into a position of positive net assets, even though some of its investments - notably its joint venture with Trafalgar House in Chiswick, west London - may have fallen in value.

Last published figures showed that Stanhope had negative net assets of \$15.7m at June 30 1993.

While a large rise in the value of Broadgate would be encouraging for Stanhope, Mr Stuart Lipson, chief executive, is still searching for an investor willing to make the necessary injection.

Earlier this month the company issued a statement which said that potential rescuers were unlikely to match the prevailing 25p share price. Yesterday the shares closed at 12p.

British Land, the investment company run by Mr John Ritblat

which bought a 29.9 per cent stake in Stanhope in February, has made no secret of its willingness to step in.

But Mr Ritblat's main interest is acquiring Broadgate, which Stanhope is reluctant to sell while the property market is moving in its favour.

A forecast commissioned by Stanhope from Jones Lang Wootton, the surveyors, suggested that Broadgate Properties' assets could be worth anything up to £1.3bn in three years time, against an estimated £1bn today.

If the banks believe such figures they may agree that selling 50 per cent of Broadgate now would not be the best way of realising value from one of the City's best office developments.

Others understood to be interested in investing in Stanhope on the right terms include Morgan Stanley and Goldman Sachs, which both run substantial property funds.

This announcement appears as a matter of record only. October 1994

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## INTERNATIONAL COMPANIES AND FINANCE

Turnaround aided by modest recovery in new car market

## Ford Europe arm posts \$25m profit

By John Griffiths in London

The continuing modest recovery in Europe's new car markets and further cost-cutting and restructuring helped Ford achieve a \$25m net profit on its European automotive operations, excluding Jaguar, in the third quarter.

This represents a sharp turnaround on its \$217m loss in the same period of 1993 and continues a trend apparent since the beginning of this year.

It follows a \$310m turnaround in the second quarter, when a net profit of \$244m was

achieved compared with a net loss of \$68m in the same period a year ago.

The result lifts profit for the first nine months to \$378m compared with a \$264m loss the previous year.

Until this year, Ford's European operations, excluding Jaguar, had suffered losses consecutive years of losses totalling \$1.5bn.

"Europe is in the early stages of economic recovery and we expect to see continued improvements in most [European] countries," Mr Alex Trotman, Ford chairman, said yesterday.

Ford expects Europe's total new car market to recover to 13.3m units this year, up from 12.5m in 1993.

Its own car sales in the region in the first nine months of this year reached 1,979,913, a 7.5 per cent rise on the year-ago level. Commercial vehicle sales were 3.5 per cent higher at 157,397.

Ford's share of Europe's car and commercial vehicles markets rose marginally in the third quarter, to 12.7 per cent from 12.5 per cent in the year-ago period.

Mr Trotman made clear that the financial recovery is expected to be maintained next year as the market recovery continues and further cost-cutting benefits accrue.

Capacity utilisation is expected to increase within the next three years through the launch of a car smaller than the Fiesta, although so far no decision had yet been made on a production location. It may receive a further lift if the go-ahead is given for production of small cars to be sold under the badge of Mazda, in which Ford has a 34.5 per cent stake.

A decision is expected before the end of November.

## Premium on UBS shares slides ahead of EGM

By Ian Hodger in Zurich

The premium of the registered shares of Union Bank of Switzerland on its bearer shares tumbled yesterday to 14.6 per cent from 19.4 per cent.

This is its lowest level since September 29, when the bank announced its proposal to convert the registered shares into bearer shares, thereby reducing their voting power.

UBS is fighting an attempt by Mr Martin Ebner, a maverick Zurich broker-dealer, to swing a majority of votes at the annual general meeting next April in favour of strategic changes at the bank.

An extraordinary general meeting will be held on November 22 to vote on the share conversion proposal. If accepted, it would slash the voting power of Mr Ebner's BK Vision, a fund with 18 per cent of the registered shares.

Yesterday, the bearer shares lost SF5 to SF1,230, but the registered shares, which have one-fifth of the bearer's par value, tumbled SF13 to SF282.

Some Swiss analysts said the premium slide indicated that investor sentiment was moving towards UBS in the tense battle for proxies for the EGM.

"I have spoken to a number of large institutions, and it looks as if people are convinced that Mr Ebner has no strategy, so it is better to take the 16 per cent premium than get nothing," said Mr Hans Kaufmann, head of Swiss equity research at Bank Julius Baer in Zurich.

Analysts said UBS had been lobbying investors, and there was a suspicion that it has been supporting the premium to give registered shareholders an opportunity to limit losses.

Other analysts said the premium was hurt yesterday by the publication by UBS of the rules for registering shares before the EGM. New applications may be accepted until November 17, but the bank reserves the right to reject applications after October 25.

This increased the uncertainty over what could happen, an analyst said.

Lex, Page 16

## Statoil rises sharply after unrealised currency gains

By Karen Fossli in Oslo

Statoil, the Norwegian state oil company, yesterday reported a sharp rise in nine-month pre-tax profit to Nkr12.85bn (\$3bn) from Nkr10.42bn in the same period last year.

The rise followed unrealised currency gains as a result of the weak dollar and came in spite of lower crude oil prices.

While there are uncertainties over future currency and oil price developments, Statoil expects to achieve a substantial improvement in 1994 profits over 1993 when they hit Nkr12bn before tax.

Group revenue rose from Nkr1.7bn to Nkr6.142bn as operating profit increased Nkr700m to Nkr10.7bn. Net profits shot up Nkr900m to Nkr3.8bn.

Net financial revenue rose steeply to Nkr2.1bn from Nkr374m as operating costs increased Nkr1.1bn to Nkr46.7bn.

However, record crude oil production - 442,000 barrels a day versus 406,000 - failed to offset the effect of low prices and cut the exploration and production division's operating profit by Nkr800m to Nkr6.4bn.

Statoil said the E&P division was likely to trim Nkr2.3bn

from planned annual operational costs by the end of 1995.

In addition, the Mougstad refinery is well on the way to achieving planned efficiency improvements of Nkr375m annually. But the refining and marketing division suffered weak margins with operating profit cut Nkr52m to Nkr28m.

Natural gas lifted operating profit Nkr750m to Nkr3.2bn, reflecting increased gas volumes and firmer prices. Oil trading and shipping lifted operating profit Nkr121m to Nkr563m, because of crude oil contracts secured during favourable times in a fluctuating market.

Statoil said the E&P division was likely to trim Nkr2.3bn

## Porton International sold for £65m

By Tim Burt in London

Porton International, one of the UK's first biotechnology companies, yesterday closed the chapter on a history dogged by failure to deliver promised profits and blockbuster products by agreeing to sell its business for £65.5m (\$107.2m).

The private group, founded in 1983 by Mr Wensley Haydon-Baillie - a reclusive multimillionaire - has recommended an offer by Beaufour Ipsen, a family-owned French pharmaceutical company.

As part of the deal, worth £13.40 a share in cash or loan notes, Mr Haydon-Baillie stands to receive more than

£20m on his 33 per cent holding in the company.

Since he stepped down as chairman two years ago, the group has sold off non-core businesses and concentrated on manufacturing pharmaceutical products.

Saying that the company had turned over a new leaf, Mr Haydon-Baillie, employing a former member of the crack team of Mr Haydon-Baillie, said the past problems had been caused by "one or two products which did not come to fruition".

During the 1990s, institutions invested £76m in the group on expectations that its products would generate profits of £140.6m by 1990. In the event, its main anti-herpes medica-

tion proved ineffective and profits fell well short of targets.

At the same time, the company caused a stir by spending large sums on opulent Mayfair offices and executive salaries.

It also earned a reputation for excessive secrecy, with Mr Haydon-Baillie employing a former member of the crack team of Mr Haydon-Baillie, said the past problems had been caused by "one or two products which did not come to fruition".

Political concerns, meanwhile, were aroused when MPs demanded to know why the government signed a deal with Porton allowing it to develop commercial uses for ideas pioneered at the state-owned Centre for Applied Microbiology and Research (CAMR).

While not commenting on Porton's past problems, Lazard Brothers, Beaufour Ipsen's financial advisers, said: "This is a company on a significant recovery trend."

In the first half of this year, it reversed earlier losses with pre-exceptional profits of £1.85m on turnover of £25.6m.

The deal, financed with £58.3m of borrowings and £7.2m of shareholder equity, offers Beaufour Ipsen manufacturing and distribution facilities in Britain and the US.

Porton's existing senior management and staff will be continue run the business as part of Speywood Holdings, a new subsidiary set up by Beaufour Ipsen.

## Prudential pension sales suffer in UK

By Alison Smith

UK sales of life and pensions policies by Prudential Corporation, the UK's largest life insurer, fell in the first nine months of this year, with a 30 per cent fall in sales of single premium individual pensions.

Figures for Prudential's new business published yesterday, showed generally subdued sales of regular and single premium products, but sales of the more flexible products introduced by Prudential in the summer were more encouraging.

This is the first time Prudential has released new business figures on a quarterly basis.

Individual pension sales were particularly depressed. This reflected public concern about the standards of selling in the personal pensions sector.

The concern was sparked by a report last year suggesting that nine out of 10 cases where an investor was transferring a lump sum from a pension scheme into a personal plan did not meet the regulators' standards.

Concern is likely to be intensified after a regulator's report earlier this week suggesting that hundreds of thousands of people may have been wrongly advised to take personal pensions and leave, or not to join, their employers' schemes.

Sales of annual premium individual pensions fell 6 per cent to £88m (\$139m), while single premium pension sales fell 30 per cent to £211m, during the nine months.

The division of the insurance and savings elements of a conventional life insurance product - into Prudence Family

Cover and the Prudence Savings Account - appeared to be paying off.

The savings account attracted about £13m of annual premiums and about £72m in single premiums.

Mr Mick Newmarch, chief executive, said UK sales were "holding up well in a problematic market".

He noted advances in Prudential's Pacific operations. New business in Hong Kong and Singapore rose with higher sales of regular and single premium products.

Background, Page 25

## Elkem improves to Nkr198m

By Karen Fossli

Elkem, the Norwegian light metals producer, reported a sharp rise in nine-month pre-tax profit to Nkr198m from Nkr148m, helped by increased demand for its main products.

However, the rebound in aluminium prices failed to benefit the group because it had secured fixed-price, long-term contracts and forward hedging agreements in 1993 under softer prices.

Primary aluminium prices shot up 40 per cent in 1994 and yesterday hit \$1,800 a tonne on the London Metals Exchange, thanks in part to cuts in capacity by western producers which has contributed to lower stocks and firmer demand.

Elkem intends to seek board approval for a four-year Nkr250m investment programme for its Lista aluminium plant in Norway, for which annual capacity will be upgraded by 10,000 tonnes and improvements to environmental standards made.

Nine-month group operating profit rose to Nkr335m from

Nkr282m but the advance was stemmed by slightly weaker third-quarter operating profits compared with the previous two quarters. Elkem blamed this on a seasonal drop in sales during the summer and price reductions for ferrosilicon and manganese alloys.

Elkem said Norway's difficult energy market had contributed to unusually high prices for power supply during the summer and that it was disappointed by lower-than-expected progress in improving productivity and cost savings.

Operating costs rose to Nkr5.8bn from Nkr5.2bn. The company expects demand for main products to continue to develop favourably.

## Woolwich lifts stake in life unit

By Alison Smith in London

Woolwich Building Society, the UK's third largest, has moved to take decisive control of its joint-venture life insurance subsidiary, of which Sun Alliance was the other shareholder.

At the first opportunity for review of the arrangements for the company, Woolwich has increased its stake to 90 per cent from 51 per cent. The current arrangements are also likely to be reviewed at some point.

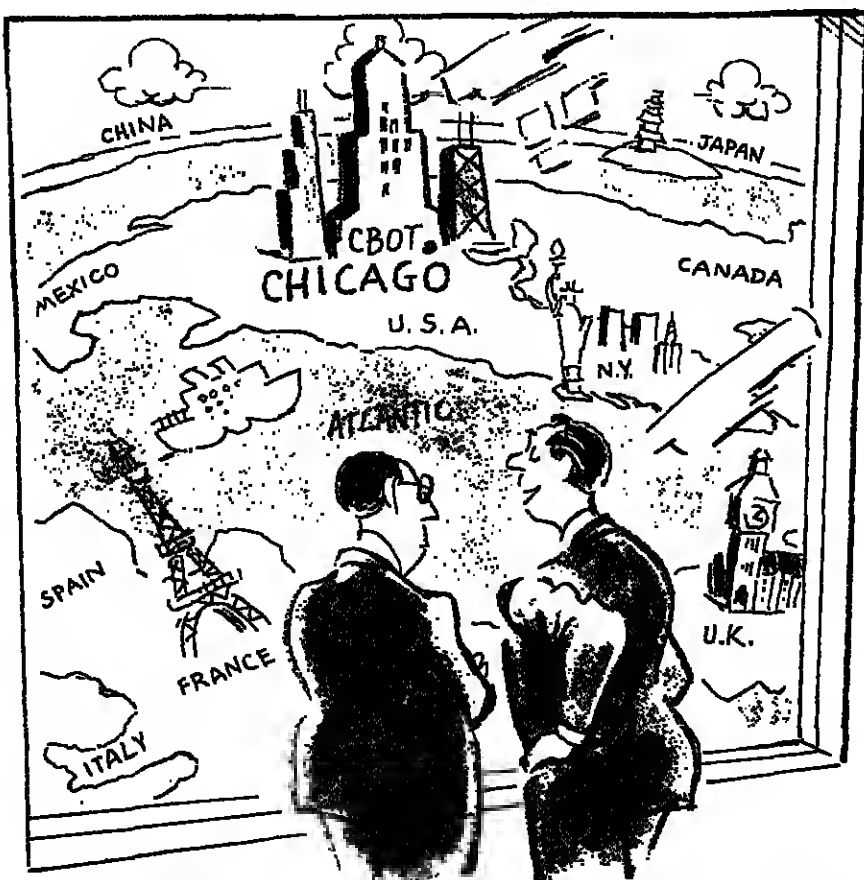
The move is part of the unravelling of links between life companies and building societies, as the latter want to take fuller advantage of the powerful distribution opportunities in selling to their large numbers of customers and making use of their extensive branch networks.

Halifax Building Society, the UK's largest, and Nationwide Building Society, the second largest, have announced plans to set up their own wholly-owned life subsidiaries, ending the arrangements by which

they sold policies only of Standard Life and Guardian Royal Exchange respectively.

Of the 10 largest societies, only Alliance & Leicester, the fourth largest, and Northern Rock, the tenth largest, are still in tied relationships with life companies without having announced plans to end them.

Mr Peter Robinson, Woolwich managing director, said the society felt the broadly equal shares in the subsidiary did not now properly reflect the importance of the distribution capability.



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## INTERNATIONAL COMPANIES AND FINANCE

## Anheuser lifts income to record

By Patrick Harverson  
in New York

Anheuser-Busch cemented its position as the top brewer in the US during the third quarter, reporting record sales and profits as its Bud Light brand became the country's second most popular beer after Budweiser, the company's flagship brand.

With Bud Light's ascendance

to the number two spot among all beers - it overtook Miller Brewing's Miller Lite brand in the process - Anheuser-Busch became the market leader in the regular, light and non-alcohol beer categories.

This performance helped push the company's share of the domestic beer market from 43.4 per cent to 44 per cent at the end of the quarter.

The St Louis-based brewer

said beer sales to wholesalers and retailers rose 2.7 per cent during the quarter, boosted by the successful debut this year of two new brands in the Budweiser family - Ice Draft and Ice Draft Light.

The introduction of new, derivative labels like "ice" beer is part of an attempt by leading brewers to compensate for the recent decline in the market share of big-name brands.

Anheuser-Busch said overall sales climbed 3.9 per cent to \$3.76bn, which helped lift net income to a record \$328m, or \$1.24 a share.

In the same quarter a year ago, the company recorded a net loss of \$75m due to restructuring and tax-related charges.

Without the special items, third-quarter net income last year was \$311m.

## Wider than expected loss at Data General

By Louise Kahn  
in San Francisco

Data General reported wider than expected losses for its fourth fiscal quarter, but revenues increased as the mini-computer manufacturer continued its difficult transition from proprietary computers to "open" systems.

Revenues for the quarter increased 5 per cent to \$292.6m from \$278.4m in the same period last year.

Net losses for the quarter were \$6.2m, or 17 cents a share, compared with last year's fourth-quarter loss of \$37.2m, or \$1.06, when the company took a restructuring charge of \$25m.

"The fact that our revenues are continuing to grow is encouraging," said Mr Ronald Skates, president and chief executive. Open systems products now represent almost 90 per cent of total product revenues, he said.

The company said that it this week received a \$53m payment from Northrop Grumman in settlement of a copyright infringement suit. The gain will be recorded in the current quarter.

"Looking forward, we are cautious for the short term. However, we believe that our ability to continue to grow revenues, combined with aggressive management of our cost structure, should result in achieving our goal of returning to profitability," said Mr Skates.

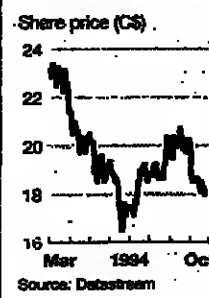
For the full year, Data General reported revenues of \$1.12bn, compared with \$1.08bn in fiscal 1993 - the first year-on-year revenue increase since 1991. Net loss for the year was \$87.7m, or \$2.45 a share, including a restructuring charge of \$35m in the second quarter.

In fiscal 1993, the company reported a net loss of \$60.5m, or \$1.73 a share, which included a \$25m restructuring charge. Data General shares fell 75 cents to \$9.95 in mid-session.

## NEWS DIGEST

## MacMillan Bloedel held back by rising logging costs

MacMillan Bloedel



Source: Datastream

MacMillan Bloedel, the western Canadian forest-products group, benefited from strengthening paper markets and favourable exchange rates in the third quarter, but profits were held back by rising logging costs, writes Bernard Simons in Toronto. Earnings recovered to C\$58.1m (US\$43.30) or 44 cents a share, from a C\$30.7m loss, or 19 cents, a year earlier. The latest figure includes an after-tax gain of C\$20.8m from the sale of the Harmac pulp division. Sales advanced to C\$1.04bn from C\$825m.

Mr Bob Findlay, chief executive, said higher stumpage fees, rising labour costs and the expense of implementing new, government-mandated environmental practices contributed to increased costs in the British Columbia logging operations. In addition, output at many sawmills was hit by summer holiday shutdowns and maintenance.

Mr Findlay predicted that earnings would climb slowly over the next year as newswood and expected containerboard price increases are put in place.

But he said a reduction in annual tree-cutting quotas in British Columbia had pushed up prices of chipping and pulp logs bought from other producers, raising the cost of paper production.

## Employee shareholders in Ina boardroom move

Employee-shareholders of Ina, the Italian insurer privatised in June, are trying to rally support for a list of directors, who would sit alongside the Italian treasury's nominees on the Ina board, if elected at next month's shareholder assembly, writes Andrew Hill in Milan.

Ina was the first state sell-off to involve guarantees of minority shareholder representation on the board - three directors out of a maximum of 13. But Mr Lorenzo Pallesi, the company's outgoing chairman, warned this week that such apparent shareholder democracy could prove to be a sham, because larger minority investors may simply outvote the small shareholders.

Imiget, an Italian fund manager, yesterday put forward its list of nominees, on behalf of a group of institutions. But Ina's employee shareholder association has not yet won the backing of the minimum 1 per cent of shares, which it needs if the list is to go forward for a vote at the Ina assembly on November 7. Nominations have to be made by the weekend.

"I'm trying to underline the importance of

this development, in the context of the Italian privatisation programme," said Mr Paul Dionne, a Milan-based investor relations and corporate governance specialist who is helping the association.

## CSR to spend AS300m on timber operations

CSR, the Australian sugar and building products company, is to invest a further AS300m in its timber operations in New South Wales, writes Nicki Tait in Sydney.

It plans to build a fully-integrated timber processing operation in the Oberon region - doubling capacity at its medium density fibreboard factory and constructing a substantial sawmill. The project, costing more than AS200m, also involves development of an inland container port. A further AS100m will be spent at Bombala on an integrated timber processing operation there.

The investment follows CSR's successful tender for exclusive rights to negotiate contracts for radiata pine grown in the area by State Forests. CSR said it expected to have access to 380,000 tonnes a year of softwood logs around Oberon and 200,000 tonnes at Bombala.

## Pre-tax reverse at Jyske Bank

Jyske Bank, Denmark's fourth-largest bank, suffered a fall in pre-tax earnings after nine months to DKr66m (\$11.3m) from DKr45m last year, writes Hilary Barnes in Copenhagen.

The bank, the only Danish bank to publish quarterly results, said its core earnings, which include net interest income and other operating income less operating expenses, increased by 20 per cent to DKr65m.

Loss provisions were cut to DKr238m from DKr540m last year and non-performing loans have fallen by 40 per cent from last year to about DKr1bn - out of total lending of DKr28bn. But the pre-tax result was pulled down by unrealised losses on the bond and share portfolio of DKr467m, compared with a gain DKr513m last year.

The bank said that for the full year it expected to achieve its profit target of between DKr200m and DKr300m.

## Elf Aquitaine sells Petrofina stake

Elf Aquitaine, the French oil group, yesterday confirmed that it had sold a 2 per cent stake in Petrofina, its Belgian counterpart, to Groupe Bruxelles Lambert, the financial group headed by Mr Albert Frère, writes John Riddling in Paris.

The French company said the deal, done in an off-market transaction, was part of its strategy of disposing of assets to reduce debts.

Mr Philippe Jaffré, Elf's chairman, has set a target of raising FF5bn (\$940m) in 1994 through disposals.

Elf declined to specify the revenues relating to the sale. It now holds 2.3 per cent of Petrofina's voting shares.

## UTC ahead 24% in third quarter

By Tony Jackson

United Technologies, the diversified US manufacturer, reported double-digit profit increases in four of its five divisions in the third quarter, but further profit falls in parts of its aerospace business.

Net earnings for the group were up 24 per cent at \$194m, or \$1.35 a share, and chief executive officer Mr George David said the company was still on track to increase annual earnings by more than 30 per cent, or by \$1 a share.

The Pratt & Whitney aircraft engines division improved operating profits by 90 per cent to \$110m, on a 4 per cent decline in sales.

The company said "the benefits derived from aggressive restructuring and cost reduction programmes, including lower research and development spending, continue to offset weakness in the aerospace industry".

However, profits from the flight systems division, which includes Hamilton Standard flight controls and Sikorsky helicopters, were 37 per cent lower at \$57m, on sales down 14 per cent. The company said Hamilton reached break-even in the quarter and was expected to be in profit for the rest of the year.

Operating profit in the Otis lift business was up 11 per cent at a record \$111m.

The Carrier air conditioning and heating division increased profits by 11 per cent, to a record \$127m, underpinned by strong demand in the US and a recovery in Europe.

Profits in the automotive division were up 20 per cent at \$31m.

## Boeing has flat third quarter

By Patrick Harverson  
in New York

Boeing, the world's largest aircraft manufacturer, yesterday reported third-quarter earnings and sales virtually unchanged from a year ago.

The group blamed a fall in commercial aircraft deliveries, increased debt expense and lower corporate investment income, which offset the positive impact of a lower federal income tax rate.

Although Mr Frank Shrontz, chairman, forecast that com-

mercial jet deliveries this year would be slightly higher than forecast, at 265, he said that year-end sales would still be about 15 per cent below 1993's total.

Mr Shrontz also warned that sales would remain at "relatively low levels" through next year, and until the global economic conditions and the financial health of the world's airlines improved.

On a more upbeat note, however, the Boeing chairman said there were already signs of an economic pick-up in Europe

and Asia which, combined with the sustained recovery in the US, augured well for the group's future.

He also said there was evidence that the main travel markets of the world were also showing signs of recovery.

For the third quarter, Boeing's net income was \$188m, or 54 cents a share, compared with \$189m, or 56 cents, in the same period of 1993.

Sales during the three months totalled \$5.1bn, against \$5.2bn a year earlier.

## Procter &amp; Gamble 18% ahead

By Tony Jackson in New York

Accelerating volume growth produced a record quarter at Procter & Gamble, the US consumer products group, with net earnings up 18 per cent to \$792m on sales up 8 per cent at \$8.2bn. Earnings in the US were up 12 per cent, and outside the US by 23 per cent.

Procter said unit volume worldwide in its first quarter

had risen by 10 per cent, or 7 per cent net of acquisitions. This compared with 5 per cent growth for the previous fiscal year as a whole. US sales and volume both rose 6 per cent.

Outside the US, volume rose 13 per cent but sales only 8 per cent.

Procter said the slower growth in international sales was partly due to price competition, and was not significantly affected by currency movements.

The company attributed its better US earnings to its laundry and cleaning, paper and food and drinks sectors. It said this was primarily due to volume growth and cost control.

Earnings per share rose 18 per cent to \$1.12. The shares, which had risen strongly in the past two months, fell 4% to \$62 in early trading.

## Bethlehem Steel declines to \$10.3m

By Richard Waters in New York

Bethlehem Steel, the US's second-biggest steelmaker, saw after-tax profits fall to \$10.3m in the third quarter, from \$30.7m the year before, as an overhaul of some of its production facilities added to costs.

The figures came in the face of a 17 per cent increase in quarterly sales, to \$1.2bn, reflecting higher prices and demand for flat-rolled steel.

Bethlehem's results were held back by three projects, which added \$60m to costs in the latest quarter: a rebuild of a coke oven, which is due to come back into operation in December, a relining of one of the plant's two blast furnaces and construction of a new coal-injection facility for one of the blast furnaces.

The company's structural products business, meanwhile, was hampered by higher costs and weak demand. The com-

pany plans to phase out the loss-making iron and steel-making operations in this part of its business by next year.

At the pre-tax level, Bethlehem's profits were \$11.3m, up from \$9.2m in the 1993 quarter, when it benefited from a tax credit. After the payment of dividends on preferred stock, the company reported a break-even position at the earnings per share level, compared with income of 22 cents a share a year ago.



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October 27, 1994  
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In Connection with the 1994 Financing Proposals of the Republic of Poland

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Madrid, 18 October 1994

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Prices for electricity delivered to the

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in England and Wales.

Pooled Price for

Tolling in 2004

Pooled Price for

Tolling in 2005

Pooled Price for

Tolling in 2006

Pooled Price for

Tolling in 2007

Pooled Price for

Tolling in 2008

Pooled Price for

Tolling in 2009

Pooled Price for

Tolling in 2010

Pooled Price for

Tolling in 2011

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Pooled Price for

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Pooled Price for

Tolling in 2020

Pooled Price for

Tolling in 2021

Pooled Price for

Tolling in 2022

Pooled Price for

Tolling in 2023

Pooled Price for

Tolling in 2024

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## INTERNATIONAL COMPANIES AND FINANCE

## Packaging, construction results boost Tenneco

By Laurie Morse in Chicago

Tenneco, the diversified US industrial group, had its best third quarter in 11 years as its packaging and construction and farm equipment divisions outperformed expectations.

Mr Dana Mead, Tenneco's chairman, said the strong quarter demonstrated the effectiveness of the company's restructuring.

Net income amounted to \$151m, or 82 cents a share, compared with \$111m, or 64 cents, for the same period last year. Sales rose to \$3.3bn, from \$3.1bn a year ago. Operating income rose to \$363m, from \$273m.

As expected, Tenneco yesterday also said it had agreed to purchase German automotive components maker Heinrich Heine for \$1.1bn in a deal that will close by the year-end.

The company's Packaging Corporation of America, boosted by rising prices for its containerboard output, saw operating income jump 24 per cent, to \$63m, from \$51m last year. Sales improved to \$562m, from \$513m.

For the first nine months of the year, Tenneco had net income of \$376m, or \$2.04 a share, on sales of \$10.9bn, compared with \$256m, or \$1.55, on sales of \$9.5bn last year.

● Tenneco's J.I. Case farm and

construction equipment subsidiary saw third-quarter operating income jump to \$73m, from last year's \$59m.

Tenneco sold 29 per cent of its stake in Case in a public offering in June.

Case, which reported earnings separately yesterday, said its third-quarter net income was \$29m, or 39 cents a share, on sales of \$1bn. Pro-forma comparative figures for the same 1993 quarter were \$28m, or 38 cents, on sales of \$841m.

For the first nine months of the year, Case had net income of \$19m, or 25 cents a share, on sales of \$3.2bn, up sharply from last year's \$18m, or 19 cents, on sales of \$2.9bn.

## US drugs groups post solid sales growth

By Frank McGurty in New York

Marion Merrell Dow and Rhône-Poulenc Borel, the US pharmaceutical groups, both showed solid revenue gains in the third quarter, but only RPR, a subsidiary of France's Rhône-Poulenc, was able to boost its bottom line.

At MMD, a 10 per cent improvement in sales to \$785m, largely reflected two acquisitions completed over the past year. The company, controlled by Dow Chemical, bought the Rugby Group, a generic drug manufacturer, late last year and Kodama, a Japanese pharmaceuticals group, in early 1994.

Excluding their contributions, revenues would have shown a 6 per cent decline from \$709m a year ago.

Sales of Cardizem, a cardiovascular medication, were down 1 per cent, although a strong performance by the lower-margin Cardizem CD, a once-a-day formulation of the product, helped to offset the loss. Sales of Seldane, an allergy remedy whose patent expired last April, were down 10 per cent.

RPR credited robust sales of its prescription products, especially in North America, for an 8 per cent rise in revenues to \$1.04bn. Profits were up 45 per cent at \$102.5m, or 76 cents a share, against \$71m, or 51 cents, a year ago. The 1993 figure reflected a pre-tax charge of \$27m, or 13 cents.

The results, which were slightly better than Wall Street had forecast, represent a turnaround of sorts from the second quarter, when earnings had come in well under expectations. In early trading on Wall Street yesterday, RPR's share price added 3/4 to 3 3/8%.

Although MMD suffered a 12 per cent slide in profits to \$126m, or 45 cents, the result exceeded analysts' forecasts of 36 cents. The stock made a little headway as a result, appreciating 3/4 to 2 1/2% during the morning.

For the first nine months of 1994, MMD posted earnings of \$330m, against \$375m, excluding a \$180m pre-tax charge. Revenues were up 9 per cent at \$2.3bn.

At RPR, net income for the nine months was \$168.8m, against \$284.8m, on revenues of \$2.85bn, virtually unchanged from a year ago.

## FTC agrees to \$4bn Eli Lilly deal

Eli Lilly, the US drugs company, has reached an outline agreement with the US's Federal Trade Commission which will allow it to go ahead with the planned \$4bn acquisition of PCS, a pharmaceutical distributor, writes Richard Waters in New York.

The deal, full details of which have yet to be finalised, is expected to act as a model for how two other drugs companies - Merck and SmithKline Beecham - operate similar drugs distributors that they have acquired in recent months.

Lilly, while refusing to confirm that it had reached a provisional deal with the anti-trust authorities, said it believed a final agreement would be completed by next Thursday. This would open the way for completion of the PCS acquisition before the end of the year.

The deal with the FTC is believed to require PCS to continue to offer drugs made by companies other than Lilly. It will also establish arrangements to prevent Lilly from gaining access to information about the prices at which

other companies sell their drugs to PCS. Yesterday, Lilly sought to play down the significance of both aspects of the agreement. However, concern that the deal would limit its ability to earn the sort of profits it had hoped for from the PCS acquisition wiped \$1 1/2 off the company's share price yesterday morning, to \$58.

Merck said that it had also been asked for information during the FTC investigation into Lilly, though it refused to say whether the regulators were examining its dealings with Medco, its own distributor.

## Learning lessons the difficult way

Richard Waters examines the issues raised by yesterday's ruling

US anti-trust authorities may have put a spanner in the works of one of the biggest reorganisations to hit the country's pharmaceutical industry.

Fifteen months ago, Merck turned the industry on its head by buying Medco Containment Services, a big distribution company. The deal sparked a race among drugs manufacturers to secure their distribution lines.

The Federal Trade Commission (FTC) has now put a question mark over this vertical integration strategy. In particular, it raises doubts about the wisdom of the three companies, which between them will have paid \$1.8bn to buy distributors, once Eli Lilly's \$4bn purchase of PCS is completed (in the other deal, SmithKline Beecham paid \$2.3bn for Diversified Pharmaceutical Services).

The commission has yet to outline publicly its concerns about the Lilly deal. Indeed, until it publishes the full details of the compromise it has reached with the company, it will not even confirm that it has held an investigation.

The outline of the deal, however, suggests that the FTC's concern is that control of distribution by a small number of manufacturers could limit the ability of other drugs makers to sell their products. The result, in the long run, could be less choice and higher

prices for consumers.

Although the deal with the FTC applies only to Lilly, it is likely to have a bearing on how Merck and SmithKline operate. Both companies cleared a review by the agency when completing their own purchases, but the FTC says: "Theoretically, the commission can go back and re-examine things on which it has passed before."

Two issues lie at the heart of the Lilly investigation. The first is whether other drugs manufacturers will have fair access to PCS's distribution system once it is acquired; in general, the deal will require the company to offer all other manufacturers' products for sale alongside its own.

Pharmacy benefit managers such as PCS generally reduce costs for buyers of drugs by offering only a limited range of products, known as a formulary. The drugs included on this list are those on which the distributor can negotiate bigger discounts, or which are cheaper than rival products.

The benefit managers encourage doctors to prescribe these formulary drugs through direct telephone contact.

However, PCS will have to offer the option of an "open" formulary - one which contains any drug the customer wants - which could reduce the competitive advantage to the company of controlling the



Randall Tobias, Eli Lilly chairman and chief executive

distributor. Lilly, however, argues that this requirement makes no difference to the attraction of owning PCS, and that it was planning to offer the option of an open formulary anyway.

Both Merck and SmithKline say they already offer open formularies to their customers.

The second issue of concern to the FTC is the potential misuse of competitive pricing information. The regulators fear that Lilly could gain access to details of the prices at which other drugs companies are selling their products to PCS, and use this to undercut competitors. To prevent this, it has required Lilly to agree to a "firewall" to keep the information confidential.

This, again, is an arrangement that all three companies say they can live with.

If the drugs companies are right in their claims that the Lilly consent decree will make no material difference to their businesses, why are the regulators showing such interest?

One possible answer is that the FTC is acting politically. With the new spirit of anti-trust zeal under the Clinton administration, it could not appear to be taking no action amid such a significant industrial restructuring.

Alternatively, the deal with Lilly may have more teeth than the manufacturers yet realise, or are prepared to admit. Either way, they still have a long way to go to prove to shareholders that buying distribution companies will support profits in the long term - and past experience is not encouraging.

The biggest previous attempt to pursue this strategy in the healthcare field - the \$4bn acquisition of American Hospital Supply by Baxter International, a hospital supplies and healthcare company, in 1985 - proved a failure. Last year, half of Baxter's sales in the US came from hospital supplies, but only a quarter of profits. Nor has the deal lifted the company's market share. It is a lesson that the drugs companies could yet learn to their cost.

## Tandem Computers recovery

By Louise Kehoe in San Francisco

Tandem Computers reported record fourth-quarter revenues and earnings, signalling a turnaround after last year's restructuring.

Net income was \$71m, or 62 cents a share, on revenues of \$804.4m. This compares with net income of \$32m, or 3 cents, on revenues of \$553.9m in the same period last year.

The performance reflected a strong return to growth, said Mr James Treibig, president

and chief executive. The company shipped a record number of computers during the year, he said, and orders grew by 20 per cent in the second half compared with the same period a year ago.

"These results validate our decisions last year to build and sell powerful computers at much lower prices with open software products," said Mr Treibig. Like many computer companies, Tandem is making a transition from proprietary technology to lower-priced "open systems" products.

Shipments of mid-range computers grew 66 per cent, while sales of high-end computers almost tripled over last year, and sales of Unix servers were up 42 per cent.

For the fiscal year, revenues were \$2.1bn, up from \$3.0bn. Net income was \$170.2, or \$1.50 a share, including a one-time gain of 20 cents a share from the sale of Applied Communications, a subsidiary. This compares with a loss of \$517.7m, or \$4.81, for fiscal 1993, which included a \$451m restructuring charge.

## Productivity improvements benefit CSX

By Patrick Harverson in New York

CSX reported its second consecutive quarter of record earnings, as the US transportation company continued to reap the benefits of productivity improvements, tight cost controls and a buoyant economic environment in its main domestic and foreign markets.

In its third quarter, CSX earned \$177m, or \$1.68 a share, on operating revenues of \$2.47bn.

In the same period a year ago, the group earned \$117m (excluding tax-related charges), or \$1.13 a share, on revenues of \$2.24bn.

Operating income at the company's railway unit CSX Transportation jumped 40 per cent to \$224m in the quarter.

## Chief executive quits at Continental Airlines

By Frank McGurty

Continental Airlines, the fifth largest US carrier, said that Mr Robert Ferguson had resigned as chief executive and vice-chairman.

The move comes as the airline is struggling to correct operational problems with its low-cost Continental Lite flights. The service, modelled on Southwest Airlines' successful route system, was launched last year by Mr Ferguson as part of a strategy to return Continental to profitability.

The airline said it was making progress on improving reliability, but admitted that the service was still not breaking even.

Mr Ferguson's departure was announced as Continental revealed a 9 per cent downturn

in third-quarter operating income to \$82.8m, from \$91m in the 1993 quarter.

Revenues were down 6 per cent at \$1.5bn. Fare-cutting during the quarter was reflected in a 2.6 per cent decline in the average yield per passenger mile.

However, net income more than doubled to \$30.6m, or \$1.03 a share, against \$12.4m, or 53 cents a year earlier. But the improvement was mostly attributable to a \$1.13m income tax provision taken in the 1993 period.

Mr Gordon Bethune, the company's president, will assume overall direction of both strategic and day-to-day operations. Mr Ferguson, 45, will stay on as a director and consultant on overall strategic planning.

REPUBLIC NEW YORK CORPORATION  
SAFRA REPUBLIC HOLDINGS S.A.Consolidated Statements of Condition  
and Summaries of Results

These statements and summaries represent the consolidated accounts of Republic New York Corporation and its wholly owned subsidiaries and of Safra Republic Holdings S.A. and its wholly owned subsidiaries. Republic New York Corporation owns 48.8% of Safra Republic Holdings S.A., which is accounted for by the equity method.

	REPUBLIC NEW YORK CORPORATION		SAFRA REPUBLIC HOLDINGS S.A.	
	September 30,		September 30,	
	1994	1993	1994	1993
(in thousands of US\$ except per share data)				
<b>Assets</b>				
Cash and due from banks	\$ 638,380	\$ 557,003	\$ 60,731	\$ 52,123
Interest bearing deposits with banks	9,530,875	6,130,430	4,754,683	3,376,354
Precious metals	1,577,081	745,681	-	-
Investment securities	11,777,082	13,875,719	5,881,392	5,650,486
Trading account assets	3,062,180	1,225,570	49,617	59,930
Federal funds sold and securities purchased under resale agreements	838,621	1,625,694	-	-
Loans, net of unearned income	9,383,733	9,031,447	1,287,237	1,183,678
Allowance for possible loan losses	(319,578)	(281,193)	(122,798)	(96,981)
Loans (net)	9,064,155	8,750,254	1,164,439	1,086,697
Other assets	4,721,359	5,051,694	457,127	335,398
<b>Total assets</b>	<b>\$41,209,733</b>	<b>\$37,962,045</b>	<b>\$12,367,989</b>	<b>\$10,560,988</b>
<b>Liabilities</b>				
Total deposits	\$22,226,145	\$22,379,887	\$ 9,140,280	\$ 7,153,245
Trading account liabilities	2,763,022	225,308	-	-
Short term borrowings	4,486,868	2,886,001	974,332	1,356,775
Other liabilities	4,069,514	5,267,507	377,331	229,101
Long term debt	2,588,991	2,643,263	648,600	650,000
Subordinated long-term debt and perpetual capital notes	2,405,843	2,130,635	-	-
<b>Shareholders' Equity</b>				
Cumulative preferred stock	672,500	556,425	-	-
Common stock and surplus, net of treasury shares	704,877	719,254	903,560	902,204
Retained earnings	1,401,255	1,153,765	407,316	269,663
Net unrealized depreciation on securities available for sale, net of taxes	(109,282)	-	(83,430)	-
<b>Total shareholders' equity</b>	<b>2,669,350</b>	<b>2,429,444</b>	<b>1,227,446</b>	<b>1,171,867</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$41,209,733</b>	<b>\$37,962,045</b>	<b>\$12,367,989</b>	<b>\$10,560,988</b>
Book value per share	\$ 37.79	\$ 35.56	\$ 69.21	\$ 66.19
Client portfolio assets in custody	\$ 5,604,254	\$ 5,014,627	\$ 5,604,254	\$ 5,014,627
Net income, for the nine months ended	\$ 250,624	\$ 221,278	\$ 119,771	\$ 85,029
Net income per common share (primary)	\$ 4.28	\$ 3.82	\$ 6.75	\$ 4.80
Average common shares outstanding (primary)	52,738	52,390	17,739	17,701

## Risk-Based Capital Ratios

As of September 30, 1994, Republic New York Corporation's risk-based core capital ratio was 16.45% (estimated) and total qualifying capital ratio was 28.00% (estimated). The ratios include the assets, risk-weighted in accordance with the requirements of the Federal Reserve Board specifically applied to Republic New York Corporation on a fully consolidated basis and capital of Safra Republic Holdings S.A. Total consolidated assets exceeded US\$ 50 billion and total consolidated capital, including minority interest and subordinated debt, exceeded US\$ 5 billion.

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All of these securities having been sold, this announcement appears as a matter of record only.

## New Issue



## Espirito Santo Financial Holding S.A.

8,699,338 ADSs or Shares included 3,655,819 ADSs or Shares offered separately by the Company in a concurrent direct offering to its principal shareholder and two of its core shareholders and 5,043,519 underwritten ADSs or Shares.

5,043,519 American Depositary Shares Representing  
5,043,519 Ordinary Shares, nominal value \$10 per share

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S.G. Warburg Securities

Credit Lyonnais Securities

Daiva Europe Limited

Deutsche Bank

Dillon, Read Securities Limited

Kiengesellschaft

3,288,519 ADSs

The above ADSs were underwritten by the following group of U.S. Underwriters.

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Salomon Brothers Inc.

UBS Securities Inc.

Arnhold and S. Bleichroeder, Inc.

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Smith Barney Inc.

N.M. Rothschild and Smith New Court

S.G. Warburg & Co. Inc.

Wertheim Schroder & Co.

Sanford C. Bernstein & Co., Inc.

Fox-Pitt, Kelton Inc.

Janney Montgomery Scott Inc.

C. J. Lawrence/Deutsche Bank

Legg Mason Wood Walker

Raymond James & Associates, Inc.

Stifel, Nicolaus & Company

Wheat First Butcher Singer



## INTERNATIONAL COMPANIES AND CAPITAL MARKETS

## Sharp ahead 55% at six months

By Michio Nakamoto  
in Tokyo

Sharp, the Japanese consumer electronics manufacturer, is a dominant maker of liquid crystal displays. Increased non-consolidated recurring profits - before extraordinary items and tax - by 55 per cent in the first six months to end-September, on the strength of buoyant demand for its LCD panels and other electronic devices.

The company said that in spite of persistent weakness in corporate capital investment, demand for its goods, combined with rationalisation mea-

asures, helped it to achieve a 7 per cent increase in sales to ¥615.3bn (\$6.35bn) compared with ¥575.2bn a year ago.

Operating profits more than doubled to ¥25.2bn from ¥11.9bn, while recurring profits surged 65 per cent to ¥31.1bn from ¥18.9bn. Net profits rose 24 per cent to ¥15.6bn from ¥12.6bn.

Sharp, which has a leading position in the market for LCD panels, has benefited from strong demand, particularly from US personal computer in the US. LCD sales totalled ¥115.3bn in the first half, compared with ¥107.5bn for the whole of fiscal 1993.

As a result, its electronic components division saw sales rise 23 per cent to ¥207.3bn from ¥168.4bn.

In contrast, the television and video equipment division reported a 4 per cent decline in sales to ¥122.9bn on continuing weak demand.

Mr Haruo Tsuji, president, said recently that he expected the company's LCD operations to continue providing growth for the company for some time.

Sharp is building the world's largest LCD factory in Japan, which is expected to begin operations next year and has expanded its existing facility.

Sharp expects LCD sales of ¥245bn in the full year, against forecast overall industry sales of ¥540bn.

Sharp is shifting the manufacture of some products overseas and procuring a greater volume of parts from abroad in order to combat the adverse effects of the high yen. As a result, it expects to increase sales by 6 per cent in the full year to ¥1,240bn on the strength of continued demand for devices.

Sharp is looking for a 41 per cent rise in recurring profits to ¥64bn in the year to March, and a 31 per cent increase in net profits to ¥39.5bn.

## Bugs Bunny set to lead invasion of Hong Kong

By Louise Lucas

Dickson Concepts, the Hong Kong based luxury wholesaler and retailer, is bringing Bugs Bunny and Batman to Hong Kong through a franchise arrangement with Warner Bros Consumer Products.

Dickson, which is putting more than HK\$150m (US\$19.4m) into the project, plans to open Hong Kong and Singapore flagship stores selling exclusive clothing, jewellery, accessories and memorabilia of Warner Bros' cartoons and superheroes around the middle of next year. Further outlets will follow.

This is the first time Warner Bros has taken a partner to open and operate stores. Outlets in Europe and the US - which will total 110 by the year-end - are company-owned, but it was felt local expertise would be important in developing the Asia market.

Dickson Concepts will pay a royalty fee to Warner Bros. Mr Dickson Foon, chairman and controlling shareholder of the group, believes the project will become a significant contributor to company profits - although he said it was too early to say if Twenty Pie T-shirts and Daffy Duck mugs could be taken to China, where he has already taken Ralph Lauren clothing.

Dickson will be financing the deal from its cash resources. In spite of opening 50 stores throughout Asia in the past 13 months, the company - which also owns the Harvey Nichols store in London - is in a net cash position, and will remain so after the latest investment.

Mr Barry Gilbert, a senior vice-president with Warner Bros in California, said the consumer products arm wanted to expand worldwide as rapidly as possible.

He was unperturbed by the prospect of problems with counterfeiting in Asia, in spite of being temporarily based in Tsim Tsa Tsui, the heartland of copy watches and clothes depicting Walt Disney and Warner Bros characters with varying degrees of skill and accuracy.

## Lion Nathan in move to expand into China

By Terry Hall  
in Wellington

Lion Nathan is planning up to three breweries in China as a way of diversifying from the mature Australian and New Zealand beer markets, Mr Douglas Myers, Lion chief executive, said yesterday.

The announcement came as Lion Nathan, the biggest brewer in both countries, reported a 45 per cent rise in profits to NZ\$204m (US\$124.9m) in the year to August 31. Its brands include Castlemaine XXXX, Toohey, Swan and Steinlager.

Mr Myers said the first of its Chinese investments, a joint venture in Shanghai, was likely to be confirmed in December. He said that because of the risks involved, Lion Nathan wanted to be the leading partner. It was considering "green field" developments because of the vast overcapacity in Chinese breweries which used 300 to 400 per cent more staff than was required.

He hinted that the initial investment would be around NZ\$100m and would stem from the company's strong cash flows of NZ\$300m.

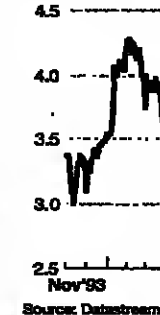
Mr Myers showed frustration at analysts' criticism that the company is burdened with "mature" products and intense competition in world markets: a view that has caused its share price to perform poorly.

He said that the company had done everything analysts had demanded, and yet its share price was lower than when it was deep in debt. Its balance sheet had been strengthened by asset sales and high cash flows which had reduced net debt by NZ\$271m over the past year. The debt to equity ratio was 38.62 at August 31, compared with 47.53 the year before.

The dividend is being lifted to 15 cents a share from 13.5 cents last year.

Lion Nathan

Share price (NZ\$)



Source: Datastream

## Matif ready to launch rapeseed futures

Today, just a few cleaners and electricians are quietly carrying out their tasks around a nondescript polygonal desk at the Bourse de Commerce building in Paris. From tomorrow, in their place will be traders and officials notably getting to work on the first day of a new derivatives market.

The latest product from Matif, the French financial futures market, is rapeseed futures - only the second in the world after Winnipeg, Canada.

"After two years' hard work, we've done it," says Mr Charles-Etienne de Cidrac, business development manager.

Rapeseed production began in earnest in Europe in the 1970s, in response to agricultural policies designed to make the continent less reliant on US soybean imports for vegetable oils and animal feeds. The crop's yellow flowers are now a familiar sight, with 1993-94 production in the EU running at 6.2m tonnes, or nearly a quarter of the world total. In France alone, last year's crop was 1.6m tonnes.

However, for many years the use of rapeseed in animal feed was controlled through the EU's common agricultural policy and was only deregulated in reforms in July 1992.

French farming syndicates approached the Matif at the time to ask for a way of hedging against the volatility of the product.

Contracts on the new market will be available for between 4 and 19 months from tomorrow - the deliberately high maximum expiry date reflecting interest by the rapeseed industry in understanding long-term price trends.

Mr de Cidrac says a number of features distinguish the market from others operated by Matif. It will operate using traditional brokers who operate across the range of its products, but also with physical brokers trading only in rapeseed.

It will use the "open outcry" system, but also have "order book officials", or Matif staff, to buy and sell for others. It will be quoted in D-Marks, the strong currency in the continent from where most demand is expected. Foreign exchange forward contracts, to hedge into US dollars and French francs, will also be offered.

Mr Gérard Pfauwadel, president of Matif, says rapeseed represents one of the few new types of product into which his organisation can diversify. It already offers most of the financial products it believes are viable: commodities derivatives represent a remaining area of growth - and one he sees as attractive in France, given its strong agricultural roots.

Almost 1,000 people have attended Matif training sessions on the rapeseed market since the start of the year. When it opens tomorrow, there will be 15 traders at the 17 available spaces around the table.

"The question is whether the interest will turn into trading," says Mr de Cidrac.

"It's a new contract for a big number of participants. As long as it is traded we will continue, and do more marketing if necessary. We are obliged to operate the markets. For us it's a strategic move. We are looking to provide a service to customers rather than find a source of profit."

Mr Pfauwadel says: "Rapeseed is a new product and a test for others. It is clearly not a big contract. If we had more than 300 contracts a day I would be extremely happy. We are rich enough to support a low volume for a certain period - certainly the first full season and probably several years."

If things go well, Mr de Cidrac says there is the possibility - not yet under serious discussion - of options in rapeseed, and futures in related products such as sunflower oil. More generally, Matif is considering contracts in wheat and other commodities as their prices are liberalised.

On the other hand, there is no guarantee of success. Coffee futures were dropped in April this year through lack of interest. More poignant still, the very trading room in which rapeseed futures will be based has been empty for two years, since Matif abandoned its cocoa futures market.

Andrew Jack

## Arco takes stake in Chinese refinery

By Louise Lucas  
in Hong Kong

Atlantic Richfield (Arco), the US oil and natural gas group, has conditionally taken up 237.6m shares in Zhenhai Refining and Chemical Company, one of the biggest refineries in China which will next month launch a public offering in Hong Kong.

The stake will give Arco some 9.9 per cent of the registered capital of Zhenhai. The stock has not yet been priced, but the company is understood to be aiming to sell its shares on a multiple between 10.2 and

12.5 with an issue price range between HK\$2.05 and HK\$2.50.

Arco's interest is a vote of confidence in a company which is perceived - in Hong Kong at least - to have problems. In May, Beijing reimposed controls on the pricing, import and distribution of crude oil and oil products and, in spite of attempts by Zhenhai's parent, Sinopec (China Petrochemical Corporation), to smooth the impact of this, the company is seen as being in effect unable to control the pricing of its products.

While analysts see the introduction of a foreign partner as a positive sign, many

caution there is no direct corollary with this and expansion in overseas markets. In July 1993 Tsingtao Brewery, the first mainland company to list in Hong Kong, sold 5 per cent of its shares to Anheuser-Busch, the US brewer, but appears to have had little help in building markets abroad.

Zhenhai is due to release its prospectus early next month, with the initial public offering pencilled in for November 15. It plans to issue 600m shares, or 25 per cent of the company, to raise HK\$1.2bn (US\$155m) to HK\$1.5bn. It will become the 12th mainland company to have its primary listing in Hong Kong.

## Packer finds his investors obliging

"Anyone know any good jokes?" quipped Mr Kerry Packer, the Australian businessman, as yesterday's unopposed acceptance by shareholders of a plan to merge his two publicly-quoted media companies into a A\$2bn (US\$1.47bn) combined group necessitated a full in formal proceedings.

The complex series of shareholder votes had been scheduled at appropriate intervals to allow for discussion. So obliging were the investors in Australian Consolidated Press, the Packer-controlled magazines business, and Nine Network Australia, which runs Australia's leading commercial TV network, that business from one meeting was completed early, and shareholders left to twiddle their thumbs before the next could start.

Under the circumstances, Mr Packer's cheerfulness was

scarcely surprising. By the end of the day, he had won approvals from ACP and Nine shareholders for the creation of a new, three-pronged media group, and now requires only court sanction for the transaction to go ahead.

With the deal being effected by a share swap arrangement, Consolidated Press, the private Packer company, will emerge with a 45.7 per cent interest in the new group - to be known as Publishing and Broadcasting - in contrast to its 47.9 per cent stake in ACP and 44.5 per cent of NNA. Mr Packer will become chairman of the new entity, with Mr Brian Powers, managing director of Consolidated Press, taking on the same role at P & B as well.

The new group will be made up of three divisions: television, magazines, investments (this will include Nine's interest in John Fairfax, the Australia newspaper publisher, and the potential stake in Optus, the telecommunications group). P & B is likely to have a market capitalisation above A\$2bn, revenues of more than A\$1bn, shareholder funds of A\$1.7bn, and immediate borrowing facilities of A\$1.3bn. All this, it is argued, will make acquisitions much easier.

The deal will also take some immediate pressure off the magazine interests, which have been battling against highly competitive conditions.

The big question is what acquisitions the merged group will pursue. The prospectuses make clear that on the magazine front, the focus will be on Asia, where ACP has already picked up a stake in the Vietnam Investment Review, rather than the more mature Australasian markets.

Nine, meanwhile, has already been edging into the

multimedia industry. Aside from the Optus connection, for example, it has joined forces with Village Roadshow, a cinema group, to run "out-of-home" entertainment centres, including indoor theme parks in shopping centres across Australia. Nine was also one of the vehicles through which Mr Packer pursued his abortive bid to build Sydney's new casino.

The price, for ACP shareholders, will be some dilution of earnings per share, but Nine's stronger growth prospects mean that it is already more highly rated, and if the acquisition opportunities look good enough, the shares of the new company should trade on a higher multiple than those of ACP. Such thoughts, at least, seemed to be buying peace from shareholders yesterday.

Nikki Tait

## THE CHINA FUND

(An exempt company incorporated in the Cayman Islands with limited liability)

## 1994 INTERIM RESULTS

(Unaudited)

## REVIEW AND OUTLOOK

The renewal of China's MFN status for another year by the US Government and general improvements to the Sino-US relationship benefited international investors' sentiment towards China. The Chinese government's temporary credit easing in the second quarter of 1994, together with the rescue package announced by the China Securities Regulatory Commission for the battered 'A' share markets, prompted a rebound in the 'B' share market. During the period under review, the CLSA China 'B' index rose by 16.05% in US dollar terms.

Against a background of deteriorating inflation, the Chinese government is unlikely to ease credit in the short term. There is also expected to be a substantial supply of new issue shares which may reinvigorate the China 'B' share market. "H" shares and other Hong Kong listed companies with significant activities in China currently offer better opportunities than many "B" shares. The investment manager will continue to focus on shares with above-average earnings growth prospects and attractive valuation with an emphasis on infrastructure and consumer related companies.

Financial Highlights	30th September 1994	30 September 1993
US\$		
Net Asset Value	58,524,353	48,515,368
Net Asset Value per share	10.94	9.70

Revenue Account	Half-year ended 30th September 1994	Half-year ended 30th September 1993
US\$		
Income	555,976	555,614
Dividend income	17,750	48,148
Interest on deposits	551,726	601,762

Expenses	Half-year ended 30th September 1994	Half-year ended 30th September 1993
US\$		
Operating expenses	(521,606)	(696,216)
Net loss for the period	(69,880)	(94,454)
Loss per share	(0.0131)	(0.0189)

LOSS PER SHARE  
The calculation of loss per ordinary share is based on the loss for the period of US\$69,880 (1993: US\$94,454) and weighted average of 5,314,956 (1993: 5,000,000) ordinary shares in issue during the period.

DIVIDEND  
The Board of Directors does not recommend the payment of an interim dividend.

EXERCISE OF WARRANTS  
During the period, 205,420 warrants were exercised and converted into 205,420 ordinary shares of US\$0.01 each for an aggregate cash consideration of US\$2,054,200. On 30th April 1994, subscription entitlements attached to the balance of 648,125 unexercised warrants lapsed and thereafter the warrants ceased to be valid for any purpose.

DIRECTORS' INTERESTS  
At 30th September 1994, none of the Directors had an interest, either beneficially or non-beneficially, in the share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY  
During the period, the Company neither purchased, sold nor redeemed any of its own listed securities. No pre-emptive rights exist under Cayman Islands Law in relation to issues of new listed securities by the Company.

By order of the Board  
Moses Poon (Cayman) Limited  
Secretary

26th October 1994  
A copy of the interim report and any further information is available from the Assistant Secretary, Moses Poon Management (China) Limited, 27th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong. Contact: 047-9511

The Family and Friends of

URS RIEDER

with sorrow announce his death on

Tuesday October 25th 1994.

A Requiem Mass will be held on Friday October 28th at 11.30 AM at St. James' Catholic Church,



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Colgate Palmolive

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for  
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acted as financial advisor to

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Michael Oaten (44 71 438 3118); Maneksh Dattani (44 71 438 3205)Bombay  
Vijay Sahni (91 22 218 7824); Anant Parikh (91 22 218 2929)ARTHUR ANDERSEN  
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Arthur Andersen is authorized by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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is being issued as the Second Tranche  
Notice is hereby given that for the Interest Period 26th October, 1994 to 26th April, 1995 the Notes will carry a Rate of Interest of 6.4375 per cent per annum (plus 300 basis points of interest) of U.S. \$3,254.31 per U.S. \$100,000 Note. The relevant Interest Payment Date will be 26th April, 1995.  
Bankers Trust Company, London Agent Bank

Central Hispano Financial Services Limited  
U.S. \$ 100,000,000  
Primary Capital Guaranteed Floating Rate Notes due 2006  
with a substitution guarantee on a subordinated basis of Banco Central Hispanoamericano, S.A.  
In accordance with the provisions of the Notes the following notice is hereby given:  
Interest Period: October 27, 1994 to April 27, 1995 (182 days)  
Interest Rate: 8.125% p.a.  
Coupon Amount: U.S. \$ 308.50 per U.S. \$ 100,000 Note  
Payment Date: April 27, 1995  
Frankfurt/Main, October 1994  
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Citicorp Banking Corporation  
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Due July 10, 1997  
Unconditionally Guaranteed on a Subordinated Basis by  
CITICORP  
Notice is hereby given that the Rate of Interest has been fixed at 5.25% and that the interest payable on the relevant Interest Payment Date, November 28, 1994 against Coupon No. 42 in respect of US\$10,000 nominal of the Notes will be US\$46.67.  
October 27, 1994, London  
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

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## Kramat tin in share swap with AOI

By Kieran Cooke  
in Kuala Lumpur

Kramat Tin Dredging, the listed subsidiary of Malaysia Mining Corporation (MMC), plans a share swap with Artikla Optima Inti (AOI) of Indonesia in a deal estimated to be worth US\$145m.

Kramat will gain a 32 per cent stake in AOI, while AOI will hold about 25 per cent of Kramat.

The Kramat/AOI deal is subject to approval by both the Kuala Lumpur and Jakarta stock exchange authorities.

MMC was once one of the world's biggest tin conglomerates but in recent years has diversified away from mining. AOI is part of the Djajanti Group, one of Indonesia's biggest timber companies.

Analysts say the deal allows Kramat to focus its attention on the potentially lucrative timber industry, while giving AOI the opportunity of a "back door" listing on the Kuala Lumpur exchange.

Earlier this year AOI was refused approval for a public offering on the Jakarta stock exchange after the Indonesian government said that the company had failed to abide by the terms of its forestry concessions.

AOI has announced plans to build a large cement plant in eastern Indonesia.

In June PT Barito Pacific, one of Indonesia's largest companies, entered into a complex shares and cash deal with Malaysia's Construction and Supplies company.

Analysts said that deal, still subject to approval from the Malaysian securities authorities, would allow Barito to raise funds on the highly liquid Kuala Lumpur market.

Seoul paper group buys bank stake

Hansol Paper, South Korea's biggest paper maker, said it would buy a 15 per cent stake in Donghae Merchant Banking for Won17.1bn (\$21.4m) in an attempt to secure a controlling stake in the bank. Reuters reports from Seoul.

Seoul-based Hansol and a local businessman are currently the biggest shareholders in the Pusan-based bank, with each having a 10 per cent stake.







## COMPANY NEWS: UK

## BFI warns Attwoods investors

By Peggy Hollinger

Browning-Ferris Industries, the US waste group staking Attwoods, yesterday sought to steal a march on the UK company by urging investors to be wary of promises made in fighting off the £364m cash bid.

The letter was sent to shareholders in advance of Attwoods' second defence document, which is expected this week.

Attwoods is thought to be planning to publish projections on sales and profits which could show expectations of a substantially improved performance in 1995.

The defence is expected to reinforce Attwoods' argument that the offer is too low.

BFI said its own document "reiterates that the group has not lived up to its promises."

Since 1992 operating margins and earnings per share had fallen, while debt as a

proportion of shareholders' funds had risen.

BFI quoted a series of statements made by Attwoods since 1992 to support its claim that the group had consistently failed to deliver on promises of improvements. "Don't take any more chances," BFI said. "Don't gamble your investment and risk further disappointment. We urge you to accept the BFI offer."

The statements chosen by BFI were excerpts from annual reports and newspaper articles. Attwoods responded last night by saying that the quotes had clearly been taken out of context. "This is complete nonsense," the company said. "No one ever disputed those three years would be difficult."

Attwoods published its own excerpts from annual reports dating back to 1992, indicating substantial uncertainty over trading conditions up to 1994.

However, Attwoods said it was grateful to BFI for reminding shareholders of recent confident remarks for 1995. It would shortly outline the specific factors which underpinned that confidence.

BFI is offering shareholders 105p cash for Attwoods ordinary shares and 55p per preference share.

At current exchange rates, BFI said this represented \$9.20 per American Depositary Receipt, equivalent to five ordinary shares.

BFI stressed that, if successful, it would pay the declared final net dividend of 3.25p.

It is today expected to publish its full-year results showing profits for the first time in its recycling business.

Meanwhile, Fidelity Investments yesterday disclosed that it had sold virtually all of its preference shares to Salomon Brothers, the US investment bank.

## New owner seeks to revitalise Sock Shop

By Peggy Hollinger

Sock Shop, the 1980s retailing phenomenon which collapsed four years ago, could come back to the market following its sale yesterday to Sheffield entrepreneur Mr Stephen Hinchliffe.

Mr Hinchliffe has spent the two years since his abrupt departure from quoted companies James Wilkes and Lyx Holdings building up a group of retail businesses.

In August his latest company, Salisbury Stores, acquired the loss-making Salisbury luggage chain from Signet, the jewellery group formerly known as Katers, for £3.15m.

Salisbury Stores is buying Sock Shop from Murray Johnstone, the Scottish financial group, in return for a convertible equity stake believed to be about 10 per cent.

The purchase will create a private retailing group with sales of more than £100m.

Mr Hinchliffe said Salisbury aimed to come to the market in about two or three years when "market conditions are right and when our performance is good enough to give some credibility".

Sock Shop is believed to be breaking even on sales of about £20m. It collapsed three years after flotation following an ill-fated expansion into the US.

It was bought by a management team backed by Murray Johnstone, which eventually controlled the group.

Mr David MacLellan of Murray Johnstone will join the Salisbury Stores board.

Mr Hinchliffe said he expected to broaden the products on offer at Sock Shop, introducing accessories and gifts.

The enlarged business would enjoy "significant merger benefits, including cross-fertilising merchandise," he said.

In September Mr Hinchliffe separately acquired the Colibri cigarette lighters business.

## Barrs name their choice for chairman

By Richard Wolfe

Nicholas and Robert Barr, the brothers who lead the rebel shareholders at Barr & Walsby, yesterday named a chairman designate to replace their uncle on the board of the leisure and motor distribution group.

The brothers, who claim majority support among ordinary - voting - shareholders, announced that Sir David Rowe-Ham would be their candidate as chairman in place of Mr Malcolm Barr.

Sir David, a former Lord Mayor of London, is a non-executive director of Williams Holdings and Apollo Healthcare.

The brothers, who have called an EGM to unseat the group's present chief executive and finance director, also appointed NM Rothschild as their financial advisers.

They plan to run the company's two core divisions as stand-alone businesses, and outsource the non-voting A shares, owned almost entirely by the Barr family.

The board has called another EGM to discuss its own plans for enfranchising the A shares. A document is expected tomorrow.

## BM cuts deficit to £71.5m and proposes name change

By Richard Wolfe

BM Group, the engineering company, yesterday reported a 75 per cent reduction in bank borrowings and a name change alongside its results for the year to the end of June.

The group, which almost collapsed last year, sold 17 businesses and 14 properties to reduce its borrowings from £160m to £40m at September 30.

Announcing new banking arrangements, the group also broke with its past by proposing to change its name to Brunel Holdings.

"Effectively, we are at the end of a massive and costly restructuring of the group," said Mr Cliff Walker, chief executive.

The £50m acquisition of Blackwood Hodge in 1990 was largely blamed for the difficulties which led BM to breach its covenants on interest cover and net assets last year.

The company is still considering litigation against Hambros, the merchant bank which advised on the purchase.

Blackwood Hodge reported reduced pre-tax losses of £3.12m (£4.2m) for the year to June 30. Turnover fell from £267.7m to £235.6m after disposals including its loss-making Canadian operations. BM has

new BM ordinary shares, with a market value of £2.95m at last night's close.

BM, which already owns the entire ordinary share capital of Blackwood Hodge, intends to liquidate the company.

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Blackwood Hodge reported reduced pre-tax losses of £3.12m (£4.2m) for the year to June 30. Turnover fell from £267.7m to £235.6m after disposals including its loss-making Canadian operations. BM has

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Moger Woolley: promises return to dividends as soon as possible

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## After-care service of a quick sell

Alison Smith on the industry's response to the mis-selling of pensions

As estimates of the total bill facing the life insurance industry to compensate victims of poor advice to take personal pensions soar to £23m, life companies are having to review their sums as well as their individual cases.

Almost all life insurers have made some provision for possible pension compensation in their accounts for 1993, on the basis of how bad the extent of mis-selling looked last year.

In its role as prudential supervisor, the Department of Trade and Industry wrote to life companies in January to check what provisions they had made. Now it is repeating the exercise, as the potential liability has grown sharply.

The original cause for concern last December was a pilot study by KPMG Peat Marwick, the accountancy firm, suggesting that in nine out of 10 cases sales of personal pensions to people transferring a lump sum from an occupational scheme did not meet regulators' standards.

Life companies emphasised that in many cases the advice would have been good though the record-keeping was poor, and played down the cost of compensating cases where a pension had been mis-sold.

Now there seem to be two areas of business which were not previously thought to be a significant problem.

Life insurers thought the number of cases where someone took a personal pension and left an employer's scheme to do so was relatively small, since there would clearly be a disadvantage to the investor in giving up the employer's contribution. They did not know how many had bought a private plan instead of joining an employer's scheme.

A survey by actuaries Bacon & Woodrow for the Securities and Investments Board, the City's chief regulator, suggests about 300,000 people were advised to opt out of an occupational scheme and about 500,000 were advised not to join.

Advice to take either course is more likely to have been poor than advice to take a pension transfer, and the cost of redress is likely to be higher. Identifying victims of mis-selling here will itself be an expensive task for life companies.

There was little quarrelling from life companies yesterday about the prospect that they would have to make more provisions in the light of the new information. Only Prudential, the UK's largest life insurer, maintained that it did not need to make specific provision.

Insurers emphasised, however, that the amounts of compensation likely to be payable by most companies were "small change" in relation to their assets, and might have

even less effect on policyholders and shareholders than poor investment performance or volatility in the markets.

Legal & General, one of the UK's largest life insurers, was the first to acknowledge it would have to raise provisions to take account of administrative costs and the prospect of contributing - through the Investors' Compensation Scheme - to redress for the clients of independent financial advisers which had gone out of business.

Bradford & Bingley Building Society, the largest organisation to act as an independent adviser, said that having provided £5m already, it would be setting aside a further £5m.

Others, however, took a different view. Pearl Assurance, for example, said it expected provisions to be "a bit higher, but nothing like twice as much".

Similarly at BAT, which owns Allied Dunbar and Eagle Star, the expectation was that provisions would have to increase only slightly. Its earlier estimate for provisions across the two companies had been about £10m.

It acknowledged, however, that it was in a somewhat unusual position because Allied Dunbar had professional indemnity insurance at Lloyd's, and the insurers had already been notified of a

capital redemption reserve and part of the share premium account had been effected. The board intends to recommend payment of a final dividend in respect of 1994.

Courtyard Leisure, the USM-owned wine bar and restaurant operator, is attempting to trace the ultimate beneficiary of an 8.8 per cent stake taken by Gifford of Belgium.

Mr Ali Safa, Courtyard's chairman and largest shareholder with a 15 per cent stake, said: "We believe it is a friendly investment but we need to check."

Mr Safa said a number of overseas institutions had approached the company over the past month with the view to making an investment.

Archer

Archer Group Holdings, the Lloyd's agency, announced yesterday that it may launch a "dedicated" investment trust to raise funds for the 1995 underwriting year.

Butte revises loss

Butte Mining's audited results for the year to June 30 showed pre-tax losses of £351,000, giving losses per share of 0.15p. The preliminary announcement gave pre-tax losses of £468,000.

The improvement comes as a result of the company writing back certain provisions no longer necessary.

Prowling

Prowling, the housebuilder, announced yesterday the conversion of 49.9m A ordinary shares of 20p each into ordinary shares of the same value.

The conversion was in accordance with its articles of association, the company said, and application would be made for the new shares to be admitted to the Official List.

PUBLIC WORKS LOAN BOARD RATES

Effective October 25

Quota loans

Term

Rate

Over 1 up to 2

Over 2 up to 3

Over 3 up to 4

Over 4 up to 5

Over 5 up to 6

Over 6 up to 7

Over 7 up to 8

Over 8 up to 9

Over 9 up to 10

Over 10 up to 15

Over 15 up to 25

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Over 215

Over 220

Over 225

Over 230

Over 235

Over 240

Over 245

Over 250

Over 255

Over 260

Over 265

Over 270

Over 275

Over 280



## COMPANY NEWS: UK

## New issues defy ailing image

Christopher Price on the more robust view from an FT survey

Just how sick is the new issues market? The recent spate of profit warnings, share price slumps and executive departures would seem to indicate something terminal.

However, a survey by the Financial Times reveals a far more robust picture. In fact, more than half of the industrial and commercial companies which have come to the market this year have outperformed the FT-SE All-Share index, while many of the underperformers have achieved parity or scored better than their sector indices.

The survey covered 85 issues made since the start of January to the end of September - excluding investment trusts, investment companies, demergers and non-UK businesses. It shows the All-Share was outperformed by 0.8 per cent.

Thus for every high profile share price slide - such as Aerostar's Hamble, down 74 per cent since issue; MDIS, down 60 per cent; Coda Group off 65 per cent; and DRS Data down 68 per cent - there have been several over-achievers.

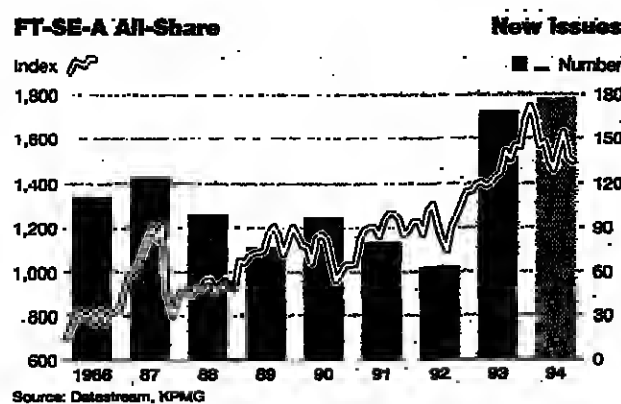
Shares in Waste Recycling Group, for example, have outperformed the market by 47 per cent, Dominick Hunter Group by 41 per cent and Inspec Group by 40 per cent.

The performance of various newly quoted companies against their sector indices is also revealing, with 58 per cent outperforming the field.

For example, construction group Amey Holdings only outperformed the All-Share by 4 per cent, yet achieved a near 19 per cent score against the FT-SE-A building and construction sector.

Likewise, Keller turned a deficit of 12.4 per cent into a gain against the same index of nearly 7 per cent.

There is also a divide between the first four months of the year and the latter period. Flotations since May have outperformed the All-Share by more than 5 per cent (up to Monday's closing price).



1994 NEW ISSUES: FT-SE BUILDING AND CONSTRUCTION SECTOR

Company	Issue Date	Market Value (£m)	Issue Price (£)	Premium 25/10/94	Performance relative to Sector	All-Share
Beazer Homes	25/3/94	463.39	165	-18.18	5.99	-14.07
Wainhomes	30/3/94	105.81	170	-25.29	-8.44	-21.61
Keller Group	5/6/94	72.80	130	-15.38	6.55	-12.42
Redrow Group	17/6/94	268.40	135	-18.52	-2.95	-16.11
Amey Holdings	10/6/94	181.00	181	3.11	16.76	4.39

Performance: Richard Brown, Source: Datastream

But those joining the market in the previous four months - the index peaked at the end of January - have underperformed by nearly 6 per cent.

This partly reflects the volatile market conditions, which have led to a general decline since the start of the year.

"A big proportion of companies were coming to the market and being priced at a time when optimism was high and the index was at a record," says Mr Sandy Muirhead, managing director at Charterhouse Tilney, the merchant bank.

Lower interest rates and investment trust sales in the last quarter of 1993 coincided with increased institutional demand for equity, in particular that of smaller companies.

There had also been a high number of management buy-outs in the previous two to three years, and venture capitalists were keen to exit.

"A huge arbitrage gap

opened up at the time between floating and trade sales," said one corporate financier, "and there were many eager takers".

This meant that the supply of companies was swollen by those which under different circumstances might not have floated - for instance high-technology companies with a limited track record and high cash needs because of research.

But institutional demand was soon exhausted by the flood of issues, particularly against a backdrop of the falling equity market. About one fifth of this year's floats have an electronic/high-tech background, sectors which have been hardest hit by the downturn in the equity market.

"The lack of demand for stock from the institutions has had an exaggerated effect on the shares for a number of

issues," says Lord McGowan, head of corporate finance at Panmure Gordon.

He adds that the situation has been made worse by the lack of liquidity associated with some new issues, which often involve placing a relatively small proportion of the shares.

Mr David Manning, director of UK equities at Legal & General, says the problem with this year's new issues has been one of numbers, rather than any other sort of failing.

"The more new issues there are, the more the likelihood of some unsuitable candidates coming to the market. Successfully-run MBOs do not always make successful IPOs - particularly where a single product, or single major customer is involved."

Mr Andrew Parry, head of UK equities at Barings, the UK fund management group, is more critical. "There were just too many issues and I think the quality control on the corporate finance side slipped. There were quite a lot of companies that should not have come to the market."

But the corporate finance industry has been quick to reject recent criticism. "Any merchant bank knows that its reputation is at stake in bringing a company to the market," says Mr Muirhead.

"If the float goes badly, everyone suffers, not just the investor," said one financier. "I don't believe for a moment there has been a lowering of standards. The whole situation has been exaggerated because of the Hamble shambles."

Another corporate financier concluded: "Some investors are feeling a bit sore and are showing an unwillingness to participate in new issues. But there are as many who are satisfied. These things go in cycles. A big privatisation will probably settle things down." In other words, a comfortable profit would soon sweeten shareholders' memories.

See Lex

## CentreGold at £4m and makes £5m acquisition

By James Whittington

CentreGold, the electronic games publisher and distributor, yesterday announced a 48 per cent increase in annual pre-tax profits and the acquisition of Core Design, an entertainment software publisher, for £5.34m.

The company, which was floated in October 1993, reported pre-tax profits of £4.03m (£2.72m) for the year to July 31. New product launches, higher US sales and the growing popularity of personal computer software in CD-Rom format helped the group to offset margin pressures.

Turnover advanced by 34 per cent to £91.3m (£68m). On the publishing side, sales were up 62 per cent to £50.4m reflecting an increase in compact disc-based products and the launch of the group's first Nintendo video games.

Publishing sales in the US more than doubled, from £7.6m to £18.8m. Overseas sales accounted for 41 per cent (24 per cent) of divisional turnover. Turnover in software distribution moved ahead by 11 per cent to £40.9m.

Earnings per share increased to 7.3p (£5.8p) excluding new shares issued on flotation. A final dividend of 1.6p makes a total of 2.4p.

Mr Geoff Brown, chief executive, said the acquisition of Core would help consolidate the group's position in software development. It reported sales of £4.74m last year.

Some £2.94m of the purchase price will be paid in cash, with the balance in 2.74m shares issued to Mr Jeremy Smith, Core's managing director.

CentreGold shares, which were floated at 125p, gained 16p yesterday to close at 140p. Mr Brown said that "most investors still don't understand what we do".

## Calluna coming to USM with £35m price ticket

By Christopher Price

Calluna, which designs and manufactures miniature hard disk drives, yesterday announced it would raise £10.3m in a placing on the Unlisted Securities Market, which will value the Scottish company at £35m.

Nearly 17m new shares are to be issued at 65p each, representing 32 per cent of the enlarged share base.

Following the placing, the management's stake will fall from 39 to 28 per cent, with the remainder being taken up by a variety of old and new institutional investors.

Mr Norman White, managing director, said that neither the management nor current investors in the three-year-old company would be taking any money out. "All the proceeds

from the placing will be put back into the company in order to fund our planned expansion," he said.

The company's prospectus issued yesterday contained two pages of "risk factors" - highlighting the unpredictable nature of the computer component market with regard to intellectual property rights, developing new products and competition.

Calluna incurred a pre-tax loss of £1.69m for the 12 months to March 31 1994, compared with a £1.37m deficit for the 18 months to March 1993.

The company made its first sales last year amounting to £301,000. Mr White said that he expected the company to make an operating profit by the middle of next year.

The company manufactures high capacity 1.8 inch removable

disk drives which can be inserted into slots conforming to the PCMCIA industry standard in the latest generation of personal computers. The drives enable users to increase their storage capacity, move data and remove different sized amounts of data from PCs for security reasons.

Calluna developed a revolutionary 1.8 inch hard disk drive, capable of storing more than 80 megabytes of data. It also makes 1.3 inch and 1.7 inch drives and will soon announce a 2.88MB product, all under the Callunard name.

It points out that a recent industry report forecasts the number of worldwide shipments of 1.8 inch hard disk drives will rise from 694,000 this year to 20.6m in 1998. Dealings in the shares start on October 31.

## Seaperfect ready for market

By Peggy Hollinger

Seaperfect, the world's largest controlled producer of shellfish, is coming to the market next month through a £27m placing and offer which will value the scallop and clam farmer at about £60m.

The company, which was founded by an American computer entrepreneur, yesterday published a pathfinder prospectus setting out its reasons for coming to the UK market.

In it, Seaperfect forecasts that losses this year will not exceed £1m. Last year the group incurred pre-tax losses of £2.89m.

Mr Bill Lord-Butcher, the US-born chief executive, said flotation would give Seaperfect the means to increase scallop and clam production 10-fold over the next few years to meet rising demand. Currently the group processes some two tonnes of shellfish a day.

It farms shellfish in Chile, Florida and South Carolina, producing seed in its hatcheries and setting the young clams and scallops in protected coastal areas. The process takes 17 and 30 months from seed to harvest for scallops and clams respectively.

Mr Lord-Butcher argues that controlled production will

become increasingly important as wild shellfish stocks decline because of over-fishing, pollution and poor resource management. Wild catch, mostly from Japan and China, still dominates the market for shellfish.

The company warns in its prospectus, however, that the business does come with a certain degree of risk, in spite of the controlled production processes. Where possible insurance had been taken out against factors such as disease and pollution.

After the placing and offer directors will hold 21 per cent of the company and new investors 44 per cent.

## Rentokil \$8m indoor plants buy

By Andrew Bolger

Rentokil, the environmental and property services group, has continued to expand its tropical plants business, which supplies and maintains decorative trees and indoor plants in commercial settings, via an \$8m (£5m) acquisition.

Foliage Plant Systems operates a tropical plant rental and service business in New Jersey and New York, with branches in Boston, Washington, Hartford and Philadelphia.

It will be added to Rentokil's existing US tropical plants business, which is the market leader. Last year it pushed sales up 35 per cent to £40.9m.

Foliage Plant Systems had sales of \$7.6m last year. The consideration is payable in cash, with \$1.5 million deferred, subject to the achievement of certain targets.

Rentokil moved into the plants business in 1986 when it bought Plants at Work. More than 40 acquisitions later it



Clive Thompson pleased with progress of Securiguard

claims market leadership in a dozen countries.

Mr Clive Thompson, chief executive, said he was very pleased with the progress of Securiguard, the UK security group bought for £76m last year. He intended to develop

the security business in the UK, and perhaps in the US.

Mr Thompson said the group was represented in all of the main developed countries. He had no intention of entering new countries. The only possible exception was Mexico, which seemed a suitable area for the core activities - tropical plants, healthcare and pest control.

Rentokil yesterday also announced five small bolt-on acquisitions, although the turnover and cash considerations involved came to less than £1m for all five.

Two of the acquisitions were pest control companies - Commercial Pest Elimination of Florida, and Servypac in northern Spain. K&L Hygiene Services in northern Germany, and Waterloo Services Company, based in London, are both hygiene businesses. Allens Indoor Gardens of Brisbane will be added to the group's tropical plants business in Australia.

## 1994 INTERIM REPORTS

The following STET group companies announce that Interim Reports for the first half of 1994 are available upon request at their respective registered offices and at the offices of the Consiglio di Borsa (Stock Market Board).



STET - Società Finanziaria Telefonica p.a.  
Registered capital Lit 5,281,212,121,000 fully paid  
Entered in the Tribunale di Torino (Turin Court) Register of Companies under no. 286/33  
Registered office in Turin - Via Bertola, 28 (Tel: 011/55951)  
Head office in Rome - Corso d'Italia, 41 (Tel: 06/65881)



Registered capital Lit 7,165,448,535,000 fully paid  
Entered in the Tribunale di Torino (Turin Court) Register of Companies under no. 131/17  
Registered office in Turin - Via San Dalmazzo, 15 (Tel: 011/55141)  
Head office in Rome - Via Flaminia, 189 (Tel: 06/36381)



SIRTI Società per Azioni  
Registered capital Lit 220,000,000,000 fully paid  
Entered in the Tribunale di Milano (Milan Court) Register of Companies under no. 17236  
Registered office in Milan - Via G.B. Pirelli, 20 (Tel: 02/66771)

## Apollo launches rights to fund Aviation Metals deal

By Paul Chesswright, Midlands Correspondent

Apollo Metals, the aluminium distributor and processor, is expanding into specialised steels with the £3.55m cash purchase of Aviation Metals.

The acquisition is being financed by a rights issue - Apollo's second in two years - underwritten by Granville Davies to raise a net £7.7m.

Aviation Metals is a private company specialising in sales of stainless steel to the aerospace and defence industries. Despite depression in these markets, it has raised turnover marginally over the last three

years. Sales during the year to July were £8.21m, giving pre-tax profits of £1.4m.

The rights issue of up to 11m shares is on a 3-for-5 basis at 77p; preference shareholders are offered 24 ordinary shares for every 25 preference.

Apollo shares dipped 1p to 58p yesterday.

Apollo estimated pre-tax profits for the year to September would not be less than £270,000, against £102m.

The group lapsed into a pre-tax loss of £215,000 during the first half but said yesterday it was experiencing improvement in its trading environment. It intends to pay a 2.4p final.

## New outlets lift Essex Furniture

Essex Furniture, the USM-quoted retailer and manufacturer, increased annual pre-tax profits by 29 per cent from £1.09m to £1.41m on sales ahead 65 per cent to £17.7m.

The company attributed the progress to the success of its new showrooms, combined with a significant comparable sales improvement from existing outlets. The back order position at the year end was more than £4m.

A final dividend of 2.5p makes a 4.3p (3.5p) total. Earnings were 6.05p (5.24p).

## Time sells Stylecraft

Time Products, the luxury watch and jewellery distributor, is selling Stylecraft, its watch strap manufacturing business in Montreal, Canada.

However, the £900,000 sale will have a "negligible effect" on the profitability of a group that has in the pipeline a watch with a £500,000 price tag. Described as the "most complicated pocket watch ever made", it has 11 hands and movements on both sides.

## Molyneux listing

Molyneux Estates, the property investment concern currently traded on the USM, has applied for a full listing.

Dealings are expected to begin on today

## Murray Split

Murray Split Capital Trust reported a net asset value of 136.7p per capital share as at August 31, an advance of 22.7 per cent over the year.

Total assets improved by 6.1 per cent to £25.8m, outperforming a 5.8 per cent gain by the FT-SE-A All-Share Index. The

total return on net assets was 10.7 per cent, against 10.1 per cent for the All-Share.

Earnings per income share emerged at 11.5p (10.25p). The pre-tax dividend is maintained at 2.65p, holding the total at 10.6p.

## Bourne End Props

Bourne End Properties achieved a return to profit in the first half of 1994, with £231,000 before tax. The figure would have been higher but for professional costs of £300,000 connected to its planned joint venture to acquire a large property portfolio.

The previous first half carried a £145,000 loss, but a small profit in the second half resulted in a reduced pre-tax deficit of £55,000 for 1993.

Rental income in the six months advanced to £7.44m (£2.13m).

The company said that a £103m portfolio acquired last December had been fully consolidated and a further £20m of property had been purchased.

Earnings per share were 0.42p (1.25p losses). The interim dividend is reduced to 0.5p (0.75p) to reduce disparity.

## Secs Tst Scotland

Net asset value per share at Securities Trust of Scotland slipped to 85.6p in the six months to September 30, compared with 89.2p last time, and 90.1p at March 31 1994.

The trust, managed by Martin Currie, had net revenue of £5.07m (£5.48m). The tax charge of £1.66m included provision for a £293,500 advance corporation tax write-off for the interim period.

Earnings per share came out at 15.7p, compared with 1.7p, with the interim dividend unchanged at 1.08p.

## Gieves

Gieves Group, the Savile Row tailor which also has licensing and publishing operations,

## NEWS DIGEST

yesterday reported pre-tax profits of £218,000 for the half year to July 31.

The outcome, achieved on turnover of £9.13m (£8.2m), compared with profits last time of £37,000. However, on a like-for-like basis, excluding the release of a £335,000 provision arising from the disposal of Redwood Press, the book and magazine manufacturing business, in 1992 the pre-tax line rose 72 per cent.

Earnings per share dropped to 1.5p (5.4p) but an interim dividend of 0.5p (nil) is declared.

## Bridport-Gundry

Bridport-Gundry reported a more than fourfold increase in pre-tax profits for the year ended July 31, from £162,000 to £783,000.

Sales at the technical textile manufacturer were flat at £27.1m (£27.4m), with the proportion of revenue from overseas rising from 63.4 per cent to 68.4 per cent.

Operating profit from continuing operations was 46 per cent ahead at £1.19m (£813,000). Net interest and similar charges almost halved, from £903,000 to £318,000, as net borrowings were reduced to £1.8m (£3m).

Earnings per share came out at 6.16p (0.84p). The recommended final dividend is 1.75p, bringing the total to 3p (2.5p).

## Midland &amp; Scottish

Midland &amp; Scottish Resources achieved a further reduction in losses in the first half. After reporting a reduction to £48.2m for 1993, the deficit for the six months to June 30 1994 was cut from £18.5m to £7.18m.

Turnover fell from £35.4m to £24.5m. Administrative expenses of £8.3m (£4.8m) included provisions related to an amount due from Mr Martyn Deane, the former chairman, which the company believes is unlikely to

be recovered. Losses per share emerged at 4p (9p).

## Abtrust Lloyd's

Abtrust Lloyd's Insurance Trust had net assets per share of 84.85p at the end of the six months to May 31.

The trust, one of those set up to take advantage of the acceptance of limited liability capital, had a net asset value per share of 95.19p when it came to the market in November 1993.

Net revenue was £296,316. Earnings per share were 0.99p.

## DY Davies

DY Davies, the USM-quoted architect, moved nearer to the black in the year to April 30. Pre-tax losses of £56,000 compared with a deficit last time of £798,000.

Turnover of £5.55m (£7.63m) included £5.05m (£4.53m) from architecture and allied services. Operating profit rose to £278,000 (£128,000).

Losses per share were cut to 0.9p (11.5p).

## Venturi Inv Trust

Venturi Investment Trust's net assets stood at 59m at the end of the six months to September 30, a fall of 2.5 per cent, compared with a 1.9 per cent decline in the FT-SE 100 Index.

The undiluted net asset value per ordinary geared share was 4.2 per cent down at 27.47p.

Earnings per income share were 1.62p (1.84p). An interim dividend of 1.66p (1.56p).

## Trace Computers

Trace Computers, the software specialist which has been restructuring its activities, doubled pre-tax profits from £211,000 to £410,000 for the year to May 31.

Turnover edged up to £18.6m (£18m).

Mr Robert Carefull, chairman, said profits were still well below expectations. However,

there was an encouraging resurgence in activity, he said, mainly because of the impact of the group's new products.

Earnings per share jumped to 2.33p (1.1p) and a final dividend of 0.56p is proposed for a 1.5p (1.45p) total.

## Govett Oriental

Net asset value at Govett Oriental Investment Trust was 437.2p per share at September 30, up from 397.6p at the trust's March year end and 341p at end-September last year.

Attributable revenue amounted to £2.7m (£1.6m) for earnings of 1.5p (0.9p) per share.

To utilise tax credits on UK franked investment income, a "conventional" and unchanged interim dividend of 0.4p is declared - last year's final distribution was paid as a foreign income dividend.

## Exploration/El Oro

The Exploration Company, which despite its title operates as an investment dealing company, lifted first half profits to £1.04m pre-tax, against £827,000.

The outcome, for the six months to June 30, reflected sharply higher profits from investments. This offset lower returns from associates, dividends, rents and interest.

Earnings per stock unit improved from 4.89p to 6.05p.

The associated El Oro Mining & Exploration - also an investment dealing company - reported pre-tax profits of £766,000 (£751,000) for the same period, giving earnings of 12.06p (11.73p) per share.

## Contra-Cyclical

Contra-Cyclical Investment Trust saw a fall in net profits for the six months to September 30 from £508,000 to £311,000.

Net asset value per capital share dropped to 49.6p (52.4p). Earnings per income share fell from 6.35p to 3.88p. The interim dividend is 2.25p.

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## MOROCCO

Thursday October 27 1994

## The light shines more brightly

David White and Francis Ghiles assess the country's economic performance and its prospects for political change

It is probably fair to say that Morocco has never been seen by the world in general in a more favourable light in all its long and proud history than now.

Contrast helps, of course. Compared with the brutal civil violence and near-anarchy of neighbouring Algeria, Morocco stands out for its stability, cohesion, economic growth and relative liberalism.

This was not always so. Twenty years ago, the longevity of its monarchical system was open to doubt after two attempts on King Hassan II's life. Ten years ago, it was in deep financial trouble, leaning on the International Monetary Fund to steer it through a gradual adjustment process.

The king, 33 years on the throne, has proved a shrewd if stern helmsman – and also a statesman, through the role he has played over the years, mostly behind the scenes, in promoting Arab-Israeli reconciliation. It is an implicit recognition of this role that the international conference on economic development following the Israeli-Palestinian peace agreements is being staged in Casablanca, starting this Sunday.

As for the economy, annual growth has averaged 4 per cent over the past decade. This year, with abundant rain producing a bumper cereal crop, growth is expected to reach 10 or 11 per cent, after stagnating in 1993 in the second successive year of drought. Inflation is holding at around 5 per cent.

Morocco has come through its debt restructuring, and although debt servicing takes up 30 per cent of the annual budget, the public sector def-

icit has fallen from 12 per cent of gross domestic product in the early 1990s to 2 per cent last year. This year the figure is expected to rise slightly to 2.5 per cent.

Starting last year, Morocco embarked on privatisation of a scope comparable only with that of some Latin American countries. Reservations about losing the state's grip on public utilities and strategic sectors are progressively being overcome. The long-dormant stock market in Casablanca can today claim to be the biggest, in terms of capitalisation, in the African continent outside South Africa. Foreign investment is expected to reach a record level this year.

Government planners say the country can count on average growth of 4.5 per cent over the next few years. But for Mr Omar Kabbaj, a former IMF official who in the present interim government of non-party technocrats holds the wonderful title of "minister in charge of stimulation of the economy", that is not enough. The country needs to step up a gear to keep pace with the demand for jobs.

Mr Kabbaj has set an ambitious objective of 6.5-7 per cent a year, including in that target a 15 per cent annual increase in exports of finished products. These expectations rely heavily on the private sector, although Morocco has few private sector companies of any size by international standards.

Around the beginning of this year, Morocco's population of at least 27m is reckoned to have passed the threshold of being more than 50 per cent

urban, the result of a secular process of migration from the Saharan regions to the rich Atlantic plains and from the countryside to the cities.

Urban unemployment now stands at around 16 per cent. In the farming areas the rate is sometimes more, sometimes less, depending on the vagaries of the climate. Population growth, although it has slowed, is running at 2 per cent annually. There are expected to be a quarter of a million new arrivals on the job market each year.

Though subject to periodic manifestations of discontent, Morocco has been shielded from the kind of radical Islamic movement that has torn Algeria apart and affected other countries in the region. Moroccan officials are ever-anxious to underline the country's "specificity" in this respect. Essential to this "specificity" are the religious credentials of the king himself as a descendant of the Prophet Mohammed.

As a symbol of this role as "Commander of the Believers" stands the extraordinary new Hassan II mosque, dominating the Casablanca waterfront, a lavish enterprise which took 10,000 craftsmen six years to build, constructed on piles over the water, including a men's prayer area with room for 20,000 and underfloor heating, and a sliding roof weighing 1,100 tonnes. Criticism over its extravagance has subsided; most people seem proud of having it.

Privately, however, senior Moroccan officials admit deep concern about the implications of developments in Algeria. Neither the emergence of a fundamentalist state in



A view of Casablanca harbour. An international conference following the Israeli-Palestinian peace agreements begins in the city on Sunday. (Glyn Davis)

## Trade and transfers in first eight months in millions of dirhams (\$1=approx Dh8.9)

Jan-Aug 1993	Imports	40,484	Exports	21,108	Trade deficit	19,375	Transfers from Moroccans living abroad	12,081	Tourist receipts	7,476
Jan-Aug 1994	Imports	44,444	Exports	23,361	Trade deficit	21,083	Transfers from Moroccans living abroad	11,313	Tourist receipts	7,406
	Change	+9.8%	Change	+10.7%	Change	+8.8%	Change	-6.4%	Change	-0.9%
Source: Finance Ministry										

Source: Finance Ministry

Algeria, nor the disintegration of Algeria as a nation, could avoid having a profound impact on Morocco.

With its powerful interior ministry, Morocco keeps its own fundamentalist groups under fairly heavy-handed control. Mr Abdessalam Yassine, leader of Justice and Charity, the chief radical Islamic organisation, is under house arrest, and no party would be allowed to contest elections under an Islamic banner. Religious causes are mostly represented on the political scene by Istiqlal, the old national independence party.

Moroccan sensitivity was shown up by the eruption of tensions between the two countries in August after a shooting

incident in Marrakesh in which two Spanish tourists died. Rabat hastily imposed visa requirements on anyone of Algerian nationality or origin. Algeria responded by closing the border. The favoured theory in official Moroccan circles is that Algeria's secret service was behind the attack.

The Algerian press has accused Morocco of turning a blind eye to weapons crossing into Algeria, destined for armed Islamic groups crossing the border. Many Algerians feel deep resentment towards Morocco, suspecting it of playing a game to win the consent of a future Algerian Islamic government to Rabat's sovereignty over the former Spanish Sahara.

Senior officials say Morocco needs to strengthen its "antibodies against contagion" from Algeria. These defences are twofold. One is economic growth and wider participation in the country's wealth. The other is liberalisation of its politics. The system that the king, now 66, will hand over to his heir, Crown Prince Sidi Mohammed, will be considerably less undemocratic than it was a few years ago.

All the strings of authority continue to be controlled, ultimately, by the royal palace. But parliament – comprising a recondite collection of parties – has had its powers strengthened. It can send back budgets, question ministers and bring up issues such as

human rights.

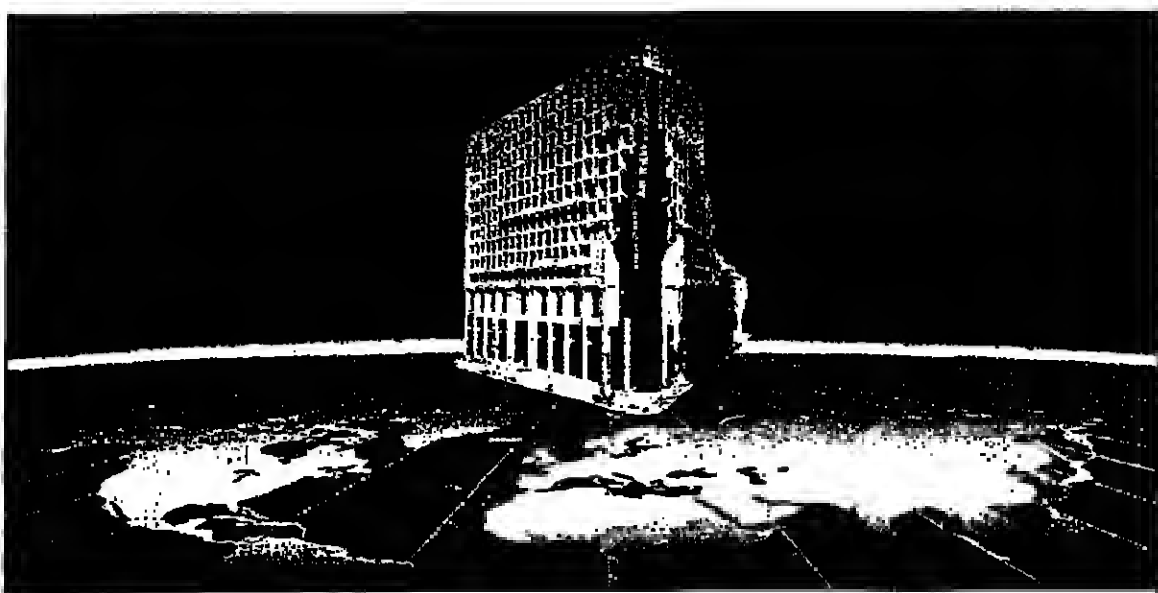
More than 400 political prisoners were amnestied in July. Foreign experts say there remain about 50 political detainees, mostly fundamentalists. Newspapers these days sometimes show surprising freedom – the weekly L'Economiste being an example of a new era in the Moroccan press.

Following a recent policy turnaround, the three Berber languages may now be taught in state schools alongside Arabic, something Berber cultural associations had long struggled for. Women's rights, although more restricted than in Tunisia, have improved.

Opening parliament this month, the king repeated an offer made twice before to

left-wing and nationalist opposition parties, which were strengthened in elections last year, to give them most of the cabinet posts and negotiate alliances to form a parliamentary majority. The parties had previously refused the conditions. This time the king, seeking "alternation" in government, added the offer of the premiership, held since May by Mr Abdelkader Filali, a veteran diplomat. A new government could emerge by the end of the year.

Whatever its shape, the government can be expected to press ahead with efforts to liberalise and modernise the economy. But real political change is likely to come at a slower pace.



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## MOROCCO II

David White looks at relations with the European Union

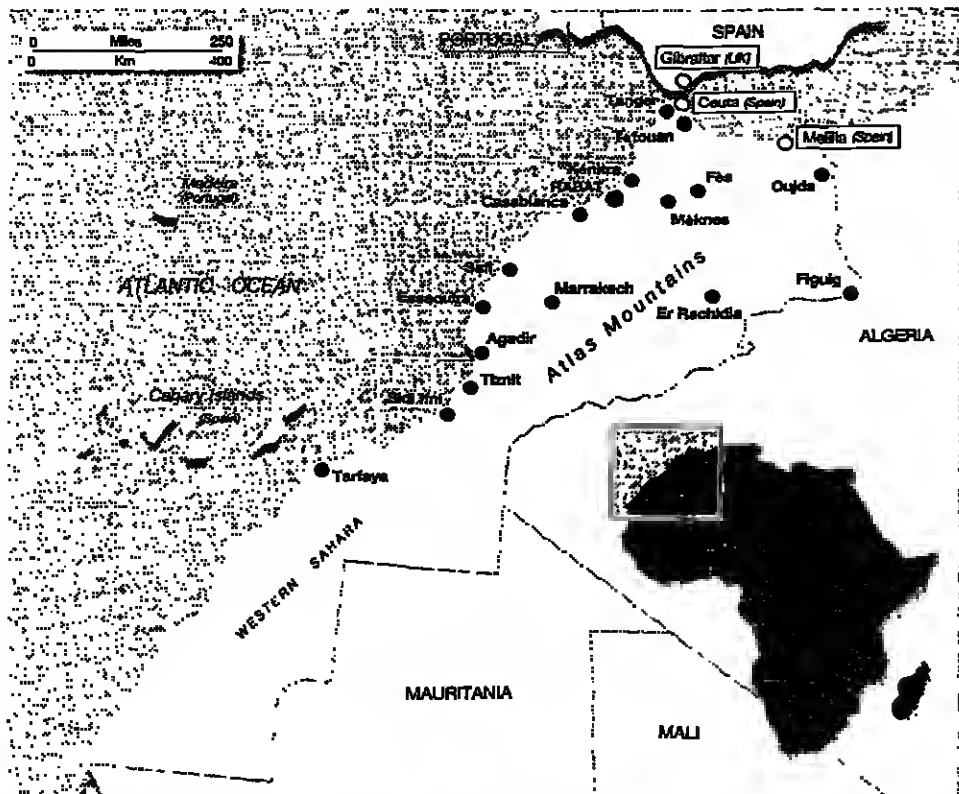
## There's a grinding of teeth in Rabat

The lack of progress in negotiations for a new and closer relationship with the European Union has become Morocco's greatest frustration. There is an almost audible grinding of teeth in the government offices of Rabat when the subject is brought up.

Isolated for long periods of its history, Morocco's economic and social aspirations are firmly fixed on the north, across the 14 kilometres that separate the country from continental Europe.

Most of its merchandise trade is already done with the European Union, which accounted last year for 55 per cent of Morocco's imports and 63 per cent of its exports, with the balance heavily in Europe's favour. In some farm products, as much as 90 per cent of Moroccan exports are dependent on the European market. But for Moroccans, relations with the EU are not just a commercial affair, but also a strong political and emotional issue.

Negotiations have stalled on a new "association" or "partnership" agreement (the title being among the more minor of the questions to be settled). Morocco has had a series of commercial and co-operation agreements with the European community over the past 25 years. In 1987, the year after Spain and Portugal became members, it lodged an application to join, in what officials now describe as "a political signal". The application was turned down, with the community clearly unwilling to extend the geographical definition of the EU to the other



shore of the Mediterranean.

In 1992 Morocco launched a fresh initiative, seeking exploratory talks on a new kind of agreement. Talks on detailed proposals began late last year. But Morocco was bitterly disappointed in its expectations. In Brussels, the Moroccans are criticised for a naive approach to complex EU procedures and for failing to mount an effective lobbying campaign.

"We do not understand this

slowness," complains a government minister in Rabat.

Morocco was to have set the model for other countries in their relations with the EU, but it has been overtaken by both Tunisia and Israel, and Egypt is now catching up. The frustration steams largely from the priority that the EU has given to the countries of eastern and central Europe which are preparing for future accession. The last

enlargement, taking in Spain

and Portugal, came as a big blow to Moroccan agriculture. Now the attention paid to central Europe has increased as a result of the Gatt agreement signed in Marrakech in April. Moroccan producers of tomatoes, for instance, had invested heavily to supply the European market before minimum reference prices came into force in the spring. But under Gatt terms, the price mechanisms

the problems that arise on the EU's periphery. "What you see on the Strait of Gibraltar and on the German-Polish border is strikingly similar: you have illegal trade, illegal migrants and drug traffic."

The future of the talks with the EU has now become linked to settlement of a fishing dispute. Morocco recently set out to halve a previously agreed level of catches from its waters, claiming they had been overfished. Fishing is essentially a bilateral issue between Morocco and Spain, the country in the front line of Morocco's dealings with Europe. The relationship between the two is dynamic - especially in trade and investment - but also troublesome.

The latest round of Euro-argument coincided with fresh stirrings by the Moroccan authorities over the Spanish enclaves on Morocco's northern shore, Ceuta and Melilla. Morocco is upset by Madrid's unwillingness to set up talks on the future of the territories, which have been in Spanish hands for more than 400 years, and especially by plans to give the two enclaves new statutes conferring a limited degree of self-rule.

Agricultural problems also have to do primarily with competition with Spain. Morocco's difficulties have increased as a result of the Gatt agreement signed in Marrakech in April. Moroccan producers of tomatoes, for instance, had invested heavily to supply the European market before minimum reference prices came into force in the spring. But under Gatt terms, the price mechanisms

may be applied year-round, mainly to the benefit of the Moroccans' Spanish competitors.

The issue is a vital one for Morocco, where 500,000 people are employed in the farm export sector, with up to 3m dependent on it for their livelihood. Moroccan negotiators now have the task of trying to reconcile the Gatt conditions with the country's present agreement with the EU.

Instead of improved access, say officials in Rabat, Morocco now has to fight to safeguard what it already has.

If the two issues of fishing and sensitive farm exports are resolved, the officials say, "we can go ahead on a partnership, but it will fall far short of what we thought in 1992." Ministers have spoken of a "crisis of confidence" between Rabat and Brussels.

However, it is foreseeable that under a revised negotiating mandate the EU may give ground on some of Morocco's requests, possibly including in the proposed agreement a provision for balance-of-payments support.

Moroccan officials see both France and Spain as "objective political allies" aware of the strategic and economic importance of developments in North Africa for the EU itself. "But we find them in our way when it comes to sectorial or regional interests."

According to a EU official,

"our current difficulty with Morocco is that because of the economic recession in Europe we are pressed to take into account our short-term interests, which are often in contra-

## KEY FACTS

Area	710,850 sq km	Population	26.1m
Head of state	King Hassan II		
Currency	Moroccan dirham		
Average exchange rate	1992 \$1=Dh8.538		
	1993 \$1=Dh9.299		
	1994 \$1=Dh9.477		

THE ECONOMY	1992	1993
Total GDP (\$bn)	28.9	27.5
Real GDP growth (%)	-2.3	-1.0
Components of GDP (%)		
Private consumption	65.0	n/a
Total investment	23.8	n/a
Government consumption	16.2	n/a
Exports	22.8	n/a
Imports	-27.7	n/a
Annual average % growth in		
Consumer prices	5.8	5.2
Wholesale prices	2.6	4.5
Ind. production	1.9	-1.5
Mining production	-12.2	1.6
Energy production	-3.7	9.3
Total external debt (\$bn)	21.4	n/a
Reserves minus gold (\$m)	3,584	3,655
Trade		
Current account balance (\$m)	-427	-352
Merchandise exports (\$m)	3,956	3,682
Merchandise imports (\$m)	-6,892	-6,062
Trade balance (\$m)	-2,936	-2,380
Main trading partners (%) (1)	Exports	Imports
European Union	63.9	62.8
France	31.5	27.9
Germany	8.2	8.9
Italy	5.9	7.1
Spain	7.4	9.1
UK	3.4	2.9
Japan	3.9	1.4
US	3.1	6.4
Middle East	5.3	2.4

(1) Percentage shares of trade in 1992. Sources: IMF, EU

Mr Abderrahman Saadi, Morocco's privatisation minister, insists: "We are not selling the furniture." But the country's plans for selling state holdings are unparalleled in their size and scope anywhere in Africa or the Middle East.

A law allowing the sale of state interests in certain specified sectors was first passed in 1989. The earlier policy of Moroccanisation, abandoned in the late 1990s, was being thrown into reverse. But the programme began cautiously, circumscribed by evident political reservations. Activities such as the phosphate industry, public utilities, oil refining and the national flag-carrier Royal Air Maroc were at that stage clearly excluded.

Privatisation did not get under way until 1993 with the sale of the government's stake in a yeast producer to French and Moroccan interests. The first major operation was the takeover of majority control of the biggest cement company, Cior, by Holderbank of Switzerland.

To date, state shareholdings in 24 enterprises have been sold, bringing in revenues of some Dh3.5bn. By the end of next year, the whole of the initial list of 112 privatisable

## The big sales are just beginning

interests - 37 hotels and 75 companies - is due to have been transferred to the private sector, with proceeds expected to reach Dh17bn, or almost \$2bn.

These are out of a total of some 800 state companies, in part dating from French policies during the protectorate of 1912-1956, and accounting for about a fifth of the country's gross domestic product.

A variety of formulas has been devised for the new balance of ownership, between foreign companies, Moroccan-based interests, employees and the stock market. In the sale of the CTM-LAN bus company, a slice was reserved for Moroccans living abroad.

In the distribution of petroleum products, the state has already sold all its holdings, with Shell and Mobil buying back the government's

50 per cent stake. All the operations so far have been counted as successes, with stock market offerings heavily oversubscribed. The government is expected to have little difficulty with the remainder of its list, except perhaps in finding buyers for textile factories which have recently been starved of orders.

Eleven state holdings are currently on the market. Mr Saadi, who recently went to London, Birmingham and Glasgow to present his plans and glean the benefits of the UK's experience in privatisation, says the big sales are just beginning.

The biggest is the state's majority stake in Société Nationale d'Investissement, a conglomerate which was used as a vehicle for Moroccanisation in the 1970s and which embraces

41 companies ranging from beer to banking and from consumer credit to chemicals. Mr Saadi, a tax accountant by profession, says it would have taken too long to sell each interest individually.

The government will place a further 16 per cent of the group on the stock market, where it

A more ambitious phase is in preparation, opening up areas that were out-of-bounds, including public utilities

is already traded, and is offering the remainder of its 67 per cent holding to a consortium, setting a floor price for the 51 per cent stake of Dh1.275bn (\$143m).

The buyers will be committed to putting part of that stake on the market within three years, with the idea that they will have this time to make alliances to establish majority control. The intended result of this complex set of conditions is that between 43 and 48 per cent of the shares will be traded on the Casablanca stock exchange, with the current private sector partners holding 17 per cent and new partners 35 to 40 per cent.

The new core shareholders must be companies domiciled in Morocco and must hold 35 per cent of the group for at least five years. Within that period, they will be allowed to restructure holdings, but not sell more than 15 per cent of book value of the portfolio each year, and must then reinvest at least 80 per cent of the proceeds in other non-real estate holdings.

Also being sold, as one lot, are majority stakes in three sugar companies. Sugar producers' co-operatives are given the first option but may be unable to muster the funds. Still to be sold in the next few months are stakes of 35 to 99 per cent in Banque Marocaine

du Commerce Extérieur, the Sonasid steel products company, newspaper distributor Sochepresse, gas storage company Somas, and Simef, a maker of diesel and electric motors.

Meanwhile, a more ambitious phase is in preparation, opening up areas that were specifically ruled as being out-of-bounds in the initial plans, including public utilities, multi-billion dollar investment needs which Morocco is in no position to cover without increasing its debt burden.

Technocratic ministers such as Mr Saadi argue that there are no longer any taboos about what can or cannot be sold. "We have no complexes any more," he says. "Political and public opinion is ready to accept a widening of the scope of privatisation."

These plans include privatising the state telecommunications authority, which has a four-year \$2bn programme to finance, and introducing competition in mobile telephone services.

The state will also subcontract part of its electricity generating needs, almost certainly to foreign interests, with financing requirements in the industry estimated at some \$3bn between public and private sectors. The new entrant will be required to manage two sites and build two more, selling the electricity to the state company which will remain the monopoly distributor. "That does not mean it cannot change in the future," says Mr Saadi.

Water supply is also a candidate for privatisation, although probably not until later on. And Royal Air Maroc is no longer considered off-limits.

What is expected to remain firmly in state hands is the mining of phosphates through the Office Chérifien des Phosphates, as a strategic export sector. But plans are under discussion for hiring out production of phosphate derivatives to private concerns.

At the same time, the government is exploring other options for bringing in private sector management through contractors and concessions. The message about entrepreneurship has sunk in deep. Even the running of the baths at the sumptuous new Hassan II mosque in Casablanca is being put out to contract.

David White

## State to ease telecom links

European and US telecommunications operators are getting set for the contest to break into Morocco, now planning to liberalise the sector to bring it into line with the standards of EU countries, writes David White.

With a \$2bn investment programme already under way up to 1997, the government plans to privatise the state telecommunications authority and bring in competition for the first time. But it has not yet decided when or how far liberalisation will go, with some evident differences of view on the issue among members of the government.

Telephone services have expanded rapidly but there remains a large potential for expansion and new services to be exploited.

"We are seriously thinking about how to regulate telecoms," says a senior government official. Services are currently the monopoly of the 100 per cent state-owned Office National des Postes et Télécommunications (ONPT). Plans are being drawn up for turning the state authority into a company that can then

be privatised, and at same time foster competition at least in certain services such as mobile telephones.

There are now just 1m telephone subscribers in a country with an active population of 10m. But the network has been growing rapidly, doubling in the last four years. As recently as 1986, Morocco had only a quarter of a million telephone lines and fewer than 500 public telephone booths. By last year the latter had multiplied ninefold. Being of recent vintage, it is an all-digital system.

Installation of automatic services in rural areas has been stepped up, along with the introduction of a public data transmission network and two mobile radio telephone networks. Morocco beat Spain, for instance, in introducing a cellular mobile service to the international GSM standard.

The ONPT has so far self-financed 45-50 per cent of investments, with the rest from loans including support from the World Bank and European Investment Bank. "The authorities realise that

without reliable telecommunications the country cannot achieve integration in the world economy," says Mr Abdellatif Filali, the prime minister and foreign minister, said at a recent journalists' lunch: "The Mediterranean is a lake, Morocco is not the other end of the world."

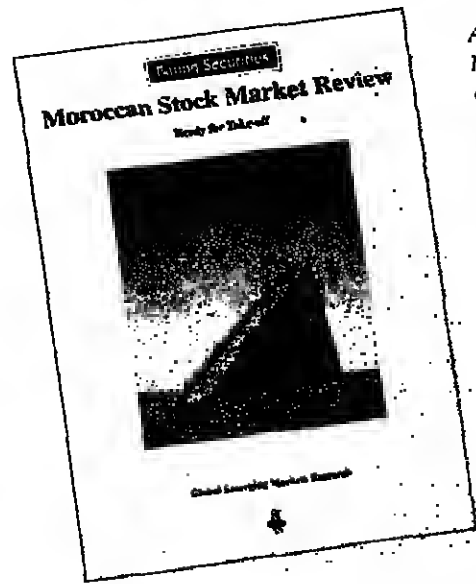
In the next four years the ministry plans to double the telephone network to 2m lines, introduce fibre-optic cables, and follow technology developments closely in order to "give companies the same facilities as their competitors in Europe".

After studying other countries' experience in liberalising the sector, Mr Ahizoune says mobile telephones and certain other services will be opened to competition while shares in the state authority will be sold off.

But it is not yet clear what role the government will keep. Parliamentary approval is still needed for the conversion of ONPT. Privatisation could involve a strategic alliance with a foreign company, coupled with a public share offering. Mr Ahizoune says "various models" are being considered and that the changes will be made "as quickly as possible".

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### INDEX OF FT SURVEYS

July 1992 - July 1994

This index has been compiled for researchers and libraries and those who require a sound briefing on national and international subjects.

A useful cross index of all FT surveys published in the above period, listed in alphabetical order and subject.

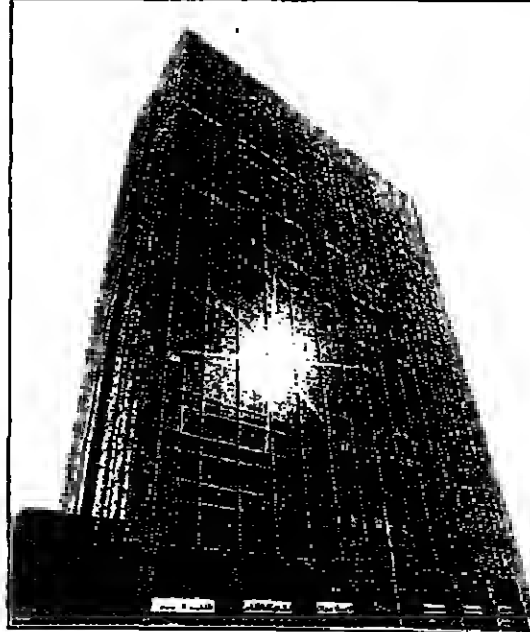
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## MOROCCO III

David White assesses foreign policy ahead of next week's important conference in Casablanca

## King's conciliation efforts pay off

The choice of Casablanca for next week's conference of political and business leaders to discuss economic development following the Israeli-Palestinian peace agreement is an acknowledgement of Morocco's role in trying to promote reconciliation between Jew and Arab.

It has played this role, mostly discreetly, over 20 years or more. Its efforts stem from the strong personal convictions of King Hassan II, whose conciliatory gestures in the past have provoked indignation among more hardline Arab nations, and are rooted in the country's own history of tolerance. Not only has Morocco always had a Jewish community, with Jews now in some influential positions: almost a tenth of Israel's population, some 600,000 people, are of Moroccan Jewish descent.

Initially, the scope of the conference was to have been limited to the Middle East, but Morocco insisted it should be extended to cover North Africa as well. Morocco has taken a forward position in its relations with Israel. Its agreement to exchange liaison officers in

Rabat and Tel Aviv, a first step towards full relations, made it only the second country after Egypt to establish formal ties with Israel.

Senior Moroccan advisers warn against the risk of excessive expectations from the conference, whose participants will include heads of multinational corporations. "But it is essential to send an electric jolt to political and private sector decision-makers," they say. "Across the whole region, from Morocco to the Gulf, it will not be the same as it was before."

The host nation is willing to support in principle the idea of a new development institution on the lines of the European Bank for Reconstruction and Development, as proposed by Israel, but only if it is demonstrated that it can play an effective and more than symbolic role, say

Moroccan officials.

The conference will look at prospects for region-wide projects, less ambitious international ventures involving groups of nations, and national projects requiring aid. Morocco will bring specific proposals including possible involvement by Moroccan companies in building a Tel Aviv-Amman motorway, hotels in Jaricho and agricultural projects in the

Algerians may have wanted to show that Morocco is not immune to the threat of Islamic extremism

Nile valley. It will also be seeking assistance for infrastructure plans of its own.

The idea of a vast new frontier-free zone, Moroccan officials warn, "will not come

about overnight". The president of the Arab Maghreb Union, set up amid much fanfare in 1989 between Morocco, Algeria, Tunisia, Libya and Mauritania, is hardly encouraging. The pact came at a high point in relations between Morocco and Algeria, officially re-established the previous year.

The one significant project that can be said to have come from this co-operation is the \$1.4m gas pipeline - on which work was officially inaugurated earlier this month - running from Algeria's Sahara gas field, of Hassi R'Mel some 1,100 kilometres through Algeria, Morocco and under the Strait of Gibraltar before reaching the Spanish and Portuguese, and probably at a later stage, French markets.

The Arab Maghreb Union was already considered mori-

bund before Morocco and Algeria locked horns again in the aftermath of a shooting incident in August, in which two Spanish tourists were killed by gunmen in a Marrakech hotel. Morocco, possibly rashly in retrospect, immediately imposed visa requirements on Algerian citizens or people of Algerian origin. Algeria reacted, not by reciprocating with visa rules, but by closing the border completely, something which some believe it wanted to do anyway to try to stop gun-running.

After initially suspecting Algerian fundamentalist groups of the hotel killings, Moroccan officials now point the finger at the Algerian authorities themselves. They believe Algerians may have wanted to demonstrate that Morocco was not immune to the threat of Islamic extrem-



King Hassan has provoked Arab hardliners to indignation

the presidency of the UMA closes its border I do not see how you have a zone of open frontiers," a Rabat government official commented wryly. "The border is easy to close, but difficult to open. Up to 1988 it stayed closed for 12 years."

Relations between the two countries have been strained for most of the time, ever since Algeria won independence from France in 1962. The tension started with border disputes and built up after 1975 when Spain decided to pull out of its Western Sahara territory, with the intention of ceding it to Morocco and Mauritania (the latter subsequently dropping its claim).

Algeria's objection to what it saw as Moroccan expansionism, and its support for the Polisario Front movement fighting for independence in the territory, kept a wedge

between the two nations. Morocco walked out of the Organisation of African Unity 10 years ago over its stance on the Sahara.

More than three years after the formal ceasefire with the Polisario, a UN-sponsored referendum, deciding between independence or attachment to Morocco is supposed to take place next February. But after many delays already, the date is expected to slip again because of difficulties in drawing up the electoral register in the region, which covers an area more than half as big as the internationally recognised territory of Morocco.

However, there is every indication that King Hassan wants to tie up the Sahara issue rapidly. The general assumption now is that the referendum, when it takes place, is likely to go in Morocco's favour - and that, in any case, Morocco would not let it go ahead unless it was pretty sure it would win. That would put an end to a 20-year quarrel during which the Moroccans, not adept at handling their own propaganda, incurred widespread discredit.

The government's aim is to establish integrated industrial sectors

## Denim maker shows way ahead

On a gentle rise overlooking the plain at Settat, south of Casablanca, stands an impeccable new factory producing half the denim needed by Morocco's clothing industry.

The Spanish company Texco, a leading European producer of denim cloth, built the \$50m facility two years ago. The Moroccan branch now accounts for a third of the group's production. By 1996, under current plans, this proportion will have built up to almost half.

With 260 employees, the venture does some direct export business - it has a contract with Wrangler of the US - but is essentially geared to the needs of the local clothing industry, which accounts for

one in every four manufacturing jobs in Morocco and depends overwhelmingly on exports of finished products to the European market.

For Mr Driss Jettou, the industry minister, who himself is a businessman with textile interests, the venture illustrates one way in which Morocco can reduce its vulnerability in a highly cost-competitive industry.

"Before, we made jeans, importing the cloth. Now we make the material," the factory, carrying out the whole

process of spinning, dyeing, weaving and finishing, is an example of the government's aim of establishing increasingly integrated industrial sectors.

Textiles and clothing, Morocco's biggest industrial sector in value after food and chemicals, is already suffering from competition from south-east Asia and other areas. Morocco currently has a significant advantage in wage costs compared to EU countries - a ratio of as much as one to five - but Mr Jettou says the government is

conscious of the risk of counting too much on this differential.

"We want to avoid surprises," he says. "Basing our industrial development on a low price of labour cannot last long. Someone will always come up who can do it more cheaply."

His department is placing emphasis on training at all levels, quality and productivity, on integrating industrial activities, attracting higher-technology industries (with companies such as Alcatel and Thomson

already installed) and exploiting Morocco's proximity to the European market to ensure quick reaction and delivery times which Asian producers would find difficult to match.

Morocco's manufacturing sector accounts for about 18.5 per cent of gross domestic product, a proportion that has increased only gradually in recent years. The government has promised more support for the private industrial sector and a reduction in administrative red tape. It is coming on a boost from foreign investment and privatisation of state activities, ranging from machine tools to canneries.

Mr Abdellatif Filali, the liberal-minded prime minister, said soon after his appointment this summer that the government must "let the private sector play its role," recognising that the state "does not have the vision of a modern entrepreneur."

Many employers are nervous, however. Mr Abderrahmane Ouali, secretary-general

Foreign investment to July (in millions of dirhams)	
Direct investment Jan-July 93	1,283
Direct investment Jan-July 94	1,496
Change	+16.6%
Portfolio investment Jan-July 93	136
Portfolio investment Jan-July 94	549
Change	+303.9%
Total Jan-July 93	1,419
Total Jan-July 94	2,045
Change	+41.4%

Source: Finance Ministry

of the CGEM business federation based in Casablanca, is worried that many Moroccan companies are too small to take on world competition under the conditions of April's Gatt agreement. Three out of four Moroccan manufacturers have fewer than 50 employees.

Mr Ouali says he is counting on the establishment of a sectoral restructuring fund backed by the World Bank, and the availability of more funds for expansion as savings move from property into shares. Family groups are likely to open up increasingly to new shareholders, he says.

The predominance of small companies has its advantages, according to Mr Jettou, insofar as they can adapt rapidly to changing conditions. "But that does not mean we are not seeking the development of companies of European or interna-

tional dimensions." This implies encouraging companies to regroup.

Industrial investment from abroad has risen sharply this year, Mr Jettou says, reaching some \$200m by the end of August, led by France, Spain and Italy. Overall foreign investment in Morocco totalled \$600m last year, compared with less than \$100m five years ago, and senior government planners say a target of \$1bn a year by the year 2000 is "not dreaming".

France, which has kept its place as main investor as well as the main provider of bilateral aid, has tripled its level of investments since 1988. Investments from Spain have multiplied 20-fold in the same period, and are now not far behind those of France.

Among the latest ventures,

Indo, a Spanish spectacle and lens maker, is setting up two new plants in the Tangier industrial zone, employing about 100 people.

The government has meanwhile reached agreement with Fiat of Italy on production of a "people's car" in Morocco. In a depressed new car market - distorted by the popularity of second-hand imports - the idea is to produce a car within the reach of the middle-ranking office worker, and at the same time boost the components and spares sector. According to Mr Jettou, it should cost about \$6,500 compared with a minimum of about \$10,000 for cars currently assembled in Morocco.

The Italian group, already present through the Somaca assembly facility in Casablanca, won the deal against Renault, Peugeot and Citroën, which all currently have cars assembled in Morocco. The project will start next year with the existing Uno model but a new model is planned from 1996. Under the agreement, half the components will be locally made.

But Mr Jettou has no chauvinistic illusions. "It will be an Italian car," he says.

David White

The industry provides 15% of the country's exports, writes Francis Ghiles

## A fishing line to Europe

Fish accounts for 15 per cent of all Moroccan exports and the industry employs at least 150,000 people. The fishing agreement between Morocco and the European Union is a key part of the kingdom's relations with its northern neighbours, most notably Spain.

Earlier this month the four-year agreement with the EU, which was due to run until 1996, was renegotiated. It will now end in May 1996, to be replaced by an agreement which will run for three years.

For all practicable purposes, it is an agreement with Spain and, to a lesser extent, with Portugal. Indeed, 95 per cent of the 750 foreign fishing vessels which are allowed in Moroccan waters are Spanish. Although those rights to fish have not changed since the first agreement with the EU, after Spain's accession to the EU in 1982, the idea of biological rest, introduced in the 1992 agree-

ment, has reduced the amount of the catch by 20 per cent.

The European Union pays Ecui02m for the right of European vessels to fish in Moroccan waters. To this figure should be added licence fees paid by individual shipowners that are worth Ecui0m-15m every year to the Moroccan exchequer. In exchange, the EU grants Morocco preferential access to its markets. Import duties on Moroccan fish are to decline from 8 per cent in 1993 to 5 per cent in 1996, compared with normal EU duties on foreign fish of 25 per cent.

However, the new Gatt rules will erode such preferential access as they cut import duties overall over a period to 12.4 per cent, a situation about which the Moroccans are not happy.

This month's agreement with the EU entails scientific co-operation and allows Moroccan inspectors on foreign ves-

sels. There are to be talks on cuts in the amounts that Morocco will allow European vessels to fish after May 1996 and more co-operation to control and preserve fish stocks.

While the Spanish ships respect the two-month biological rest agreed in 1992, the Moroccans appear not to do so. They argue that any curb on fishing, notably by smaller boats, affects the income of fishermen, particularly in the north (people who work on small boats are usually paid in kind) and the absence of fish, albeit temporarily, pushes up the price of other foods in the markets.

Shrimps and hake are found in the north, but a variety of fish is taken from Moroccan waters. Moroccan vessels tend to fish near the coast, Spanish vessels further out at sea. How much is fished illegally by foreign vessels or sold by Moroccan ships to foreigners on the

high seas is impossible to tell. Some observers believe its value runs to \$100m.

An estimated 550 foreign boats, mostly small fishing vessels from Andalusia, fish off Morocco's north and north-western shores but by far the most valuable catch is squid, caught further south. An estimated 150 Spanish vessels based in Las Palmas fish off Morocco's Saharan shores.

The fact that Morocco's administration of the Western Sahara is recognised by the EU but not its sovereignty over the former Spanish colony has never been an obstacle. In its agreement with the EU, the southern Moroccan fishing zone is deemed to start between Tan Tan and Sidi Inhi which have always been Moroccan and to extend to Mauritania, thus neatly sidestepping the question of sovereignty.

Squid is also important for the Moroccan fishing fleet which boasts 450 high sea vessels, 300 of which are in activity, and 2,500 smaller coastal boats. The larger vessels fish an estimated 150,000 tons a year, 80 per cent of which is squid worth an estimated Dh2.7bn; the smaller boats take 450,000 tons, worth about Dh1.3bn.

Of the 600,000 tons of fish and squid drawn from the sea every year by Moroccan boats, one quarter is exported, bringing in an estimated Dh4bn; one fifth, mostly sardines of which Morocco is the largest world exporter, is canned and sold abroad; one quarter is consumed locally and the remainder - mostly fish of mediocre quality or not kept in good condition because small fishing boats lack basic equipment, notably refrigeration - is turned into byproducts.

A big effort is under way in Morocco to modernise the fishing fleet and improve equipment at the main ports: Safi, Agadir, Tan Tan and Larache. Morocco's fishing grounds are exceptionally rich. The potential catch off the country's shores is 1m to 1.5m tons a year, it is estimated.

In 1963 Morocco extended its territorial waters and since 1981 it has claimed an exclusive fishing zone. However, today the industry is in crisis. The infrastructure of the ports has not been completed by the stated time, thus forcing fleet owners to invest instead of the state; the buying of boats has at times been rather speculative rather than rational and credits are becoming harder to extract from Moroccan banks. Spare parts are expensive.

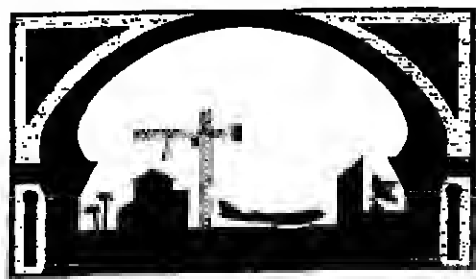
Another factor which has affected the profitability of fishing in the area is that the price of squid - dictated by its largest market, Japan - has declined in recent years. Costs will also rise because Morocco will have to conform to European quality standards which come into force next January.

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## MOROCCO IV

David White finds that an old-fashioned clubbable place has been transformed in two years

## Africa's second biggest stock market

The sleepy Casablanca stock market, accustomed to being an old-fashioned, clubbable place where nothing much went on, has come to life.

New share issues, privatisation, the arrival of foreign investment funds and radical reform of the bourse's organisation have transformed it in less than two years.

According to Mr Adil Douiri, co-founder of Casablanca Finance Group (CFG), an investment bank set up in 1992 and still the only institution of its kind in Morocco, the Casablanca bourse has now established itself as the chief stock market on the African continent outside South Africa, with a market capitalisation of some \$5bn.

The reform, approved in September 1993 and still in the process of being implemented, is based on the current French system.

Like the French Société des Bourses Françaises, which is providing advice, it involves converting the market into a limited company in which the stockbrokers are shareholders. Among its aims are better company information, more

protection for investors and a broader range of financial instruments. It brings in a new supervisory body, the obscurely-named Conseil Déontologique des Valeurs Mobilières.

Up to now, Moroccan

CFG 25-share index	
End-year change over previous 12 months	
1988	+22.15%
1989	+26.50%
1990	+39.45%
1991	+29.84%
1992	+2.35%
1993	+25.65%

businesses have relied on the banking system rather than the share and bond markets to provide funds. Up to 1991, most of the activity on the bourse was in government bonds. Since then, however, equities have taken over and now

account for 95 per cent of trading.

Interest picked up last year with a series of share offerings - something not seen in Casablanca for a long time. The starting point was an offering of shares in the family-held Wafabank in December 1993.

Foreign interest awakened in the form of US and UK-based portfolio managers specialising in emerging markets. These funds continue to dominate foreign investment in the market, with little showing from continental Europe. Their increasing involvement in the Casablanca market reflects an improved perception generally of the Moroccan economy, now that the IMF-led adjustment of the 1980s is completed and the country has resumed repaying its debts after a series of rescheduling agreements.

In the past 12 months, some \$200m of foreign money has

come onto the market, according to Mr Douiri, about 40 per cent of total volume. He expects the foreign inflow to reach \$500m next year.

Trading volume increased 362 per cent last year to Dh24.4bn by CFG's calculation (this figure differs from the turnover total published by the bourse, which includes the separate figures for purchases and sales). Volume this year is already well past 1993's full-year total. Market capitalisation, again using CFG's calculation, showed an increase of 44 per cent to Dh32.9bn at the end of the year, three times the level of 1990. (This figure reflects the value of the whole capital of quoted companies, whereas the bourse uses a smaller figure based on shareholdings placed on the market.) Prices last year rose by 26 per cent, and had already exceeded that rate of increase

by mid-October this year. The boost in activity has been greatly helped by share placements made by the state as part of privatisation deals, starting with the COTM transport company in June last year and following by the Cior cement concern. Both were heavily oversubscribed.

In addition, there have been private sector capital increases - notably by Omnium Nord Africain (ONA), the country's largest company. Its Dh1.5bn

Casablanca stock market (figures in millions of dirhams)					
	1989	1990	1991	1992	1993
Turnover (purchases and sales)	672	1,806	1,156	1,052	4,870
Capitalisation of shares traded	5,043	7,763	12,449	16,975	25,993
General index	122.65	158.68	161.09	201.88	256.07
Number of quoted companies	71	69	68	68	65

Source: Bourse des Valeurs de Casablanca

issue of common stock in May this year was the biggest operation ever made on the bourse by an industrial group. ONA is a wide-ranging conglomerate based largely on agribusiness but with interests ranging from a television channel to car sales. The king has an 18 per cent stake. (It is somewhat typical of Morocco that an uninformed outsider could read the whole of the 108-page prospectus without becoming aware of this.)

Another issue is awaited from General Tire of Morocco, half-controlled by Germany's Continental group.

More shares will come onto the market in the next few weeks and months as the government completes its initial list of privatisations. This will include 16 per cent of the shares of the holding company Société Nationale d'Investissement, which was the best-performing stock on the market last year, with a

171 per cent price increase. The sell-offs have also played a role in increasing public awareness about the market through full-page press advertisements, and in bringing in new investors. Stockbrokers believe the market can absorb all the privatisation issues as long as Moroccan residents continue to be debarred from investing in capital markets abroad.

There is also hope that the stock market reforms could lead Moroccan emigrants - there are some 800,000 in France alone - to channel a large part of their money transfers into industrial investments instead of into real estate.

The first significant involvement of Moroccan households as investors, in a market overwhelmingly dominated up to now by institutions, is expected to come with the launching of the mutual funds in the next two months. These will be open to foreign investors but are geared mainly to tapping domestic savings. Mr Douiri says mutual funds could bring in \$300m, as a "conservative" estimate, in the first year.

## THE JEWISH COMMUNITY

## Protection by the king

King Hassan's role as a bridge-builder in the Arab-Israeli conflict is one which, for one generation, deeply angered many of his Arab peers and often puzzled western observers.

Ten years ago the Moroccan Jewish community hosted a conference on Maimonides, the 12th century Jewish scholar who wrote his famous Guide to the Perplexed in Arabic. It was the first such Jewish conference in an Arab country for decades and Jews came from around the world, including Israel. Some Labour and Likud members of parliament who had been born in the kingdom attended, and a banquet to welcome the delegates was hosted by Sidi Mohammed, the Moroccan crown prince.

While re-asserting support for the Palestinian cause, the king reiterated his country's long-standing policy of protecting its Jewish citizens and offered to mediate on talks between Israel, Arab nations and the Palestinians. Syria promptly withdrew its ambassador to Morocco but the event was a gesture to the Jewish community, a demonstration that Jews and Arabs could sit down and talk to each other.

In the context of the Arab world the conference underlined hardline Arab states such as Syria and Algeria and bolstered the moderate camp led by Egypt, which in 1978 had signed the Camp David agreement, recognising Israel.

Those familiar with Jewish history in Morocco were less surprised by the move, though still impressed. Most of Morocco's Jewish community - which has declined from 300,000 40 years ago to 8,000 today - descend from families which fled the Spanish inquisition after the Christian reconquest of Granada in southern Spain in 1492.

They are regarded as "dhimmis", ie protected persons but first and foremost as tribute bearers. Christians laboured under the same sta-

tus at the time in all Muslim states.

The Koran clearly states that non-Muslims are to be humbled. In the imperial cities of Morocco this injunction was respected for many centuries. The sumptuary laws were generally enforced. In addition to distinguishing garments and restrictions on mounts, Jews had to walk barefoot in some towns, in others only when passing in front of mosques. They were often forced to do odious tasks as corvée labourers.

In the 16th century Leo Africanus, the travel writer, bears ample witness to the contempt in which Jews in the cities were generally held. It would be wrong, however, to conclude that they suffered more than the Christians and much more than the rest of the population - most ordinary citizens were frequent victims of pillage and rapine.

However, as elsewhere in north Africa, there is no obsession with the Jews comparable to that found in medieval European literature, nor has there ever been the persecution seen in Europe in modern times. Most traditional Moroccan stereotypes of Jews may have been negative, but they were also peripheral.

The mellahs, or Jewish ghettos, were usually built next to royal palaces to make them easier to protect and the sultans frequently turned to the Jewish community to help raise funds for projects or to negotiate treaties with foreign powers. This role as "tuteur al sultan" was a corollary of the knowledge of foreign lan-

guages that many Jews had and their network of relations in the wider world. Such links were of particular importance in a country which for centuries turned its back on the Holy Sea and forced the ambassadors of foreign powers to reside in the port of Tangiers, on the strait of Gibraltar, summoning them to the courts in Fez or Marrakesh only when their presence was required.

King Mohammed V, father of the present monarch, refused to give the Vichy authorities a census list of Jews during the second world war. He ensured that in those difficult years his Jewish subjects did not go unprotected. After independence, for a brief while the government boasted a Jewish minister. That is true again today, since the appointment nearly two years ago of Mr Serge Berdugo, who heads the Jewish community in Morocco, as minister of tourism.

Other Jews play an important role, none more so than Mr Andre Azoulay whose career includes co-founding the newspaper Maroc Information after independence in 1956 (it was closed by the authorities three years later), and a long spell in a senior position at Banque Paribas in Paris.

He was the founder of "Identity and Dialogue", a group of intellectuals which did much in the 1970s to bring together Jews of Moroccan origin who had emigrated to France, Canada and Israel, thus initiating better understanding of the 2,000-year history of the

Moroccan Jewish community.

Since 1991 Mr Azoulay has been King Hassan's adviser for economic and financial affairs. Born in Essaouira, the port town from which the family of Lord Horre-Belisha, the British politician, originated, Mr Azoulay has acted as the king's "sherpa" for the conference which, later this month, will bring together Mr Itzhak Rabin, the Israeli prime minister; Mr Yasser Arafat, head of the Palestinian authority and hundreds of western and Arab businessmen.

From "tutor al sultan" to "sherpa", the connection is quite obvious, as trade links are publicly established between Israel and Morocco instead of the discreet bonds that have existed for many years.

The extraordinary diversity of Jewish life that existed in Morocco for centuries, with Jewish communities differing among themselves even more than the Muslims, may never return. The spectrum ranged from the citizens of a coastal town who benefited from the protection of a foreign power to Berber-speaking Jewish cobblers settled in the midst of a dissident Berber tribe, from the prestigious descendants of refugees from Spain to inhabitants of mellahs in remote towns of the Berber heartland of Morocco in which chieftaincies were elective.

Important Israeli businessmen, such as Mr Amiran Sivan, president of Bank Hapoalim; Mr Eytan Chichinski, president of Koor, Israel's leading industrial group; Mr Michael Freedman, president of the Dan hotel chain and Mr Itzhak Lendemann, president of Tnuva, one of Israel's largest dairy producers, have started to pay visits to Morocco to discuss trade and investment opportunities. Mr Raphael Edery, the vice-president of the Knesset and Labour MP, is another recent visitor.

The Omnium Nord Africain, Morocco's largest private group which is run by Mr Fouad Filali, the king's son-in-law and son of the prime minister, has set up Salam 3000 with the Spanish Banesto Bank, Koor and the Palestinian national fund. The group has a capital of US\$60m and aims to invest in the Palestinian homeland.

Israeli irrigation specialists are already working in southern Morocco and 10,000 Israelis of Moroccan origin visit the kingdom every year. Direct air links are expected to follow soon.

Whatever the future holds, the 10 years since Mr Rabin came secretly to Morocco to visit the king and the conference now being held in Casablanca have added an extraordinary dimension to nearly 2,000 years of relations between Jews and the Moroccan people.

Francis Ghiles

## AGRICULTURE

## Gatt deal could hit exports

The Gatt agreement signed last April in the southern Moroccan city of Marrakesh could, paradoxically, cost the kingdom as much as \$700m in lost exports.

Exports of farm products, notably citrus, tomatoes, potatoes and cut flowers would be hit. A confidential report drafted last January by the Moroccan ministry of agriculture puts export losses in the farm sector at Dh500m, a figure which was confirmed a month ago by a paper on "the Uruguay Round and its effects on North Africa", presented at the annual conference of the French Association of Economic Science in Paris.

The reason for this state of affairs can be traced to the strategy adopted by Morocco in the run-up to the Gatt agreement. The kingdom's farm produce has, since the first agreement signed with the European Union in 1967, enjoyed preferential access to European markets. Lower European import duties are charged on a range of produce exported by Morocco than on similar produce imported from countries which have not signed a partnership agreement with the EU.

Preferential access was confirmed in the 1980s and was seen as a form of compensation for the trade diversion which Morocco was bound to suffer because of the access of Spain and Portugal to the EU in 1986. Spain's accession, in particular, gave such produce as citrus and tomatoes from the Iberian Peninsula much easier access to the markets of northern Europe. The EU granted Morocco quotas to help it overcome this.

The new Gatt agreement, by changing the pattern of European protection, technically forced the EU and Morocco to renegotiate their previous agreement. Morocco's strategy during the Uruguay Round was to avoid including multilateral concessions on Mediterranean fruit and vegetables in the broader discussion in order to prevent the preferential access its products enjoyed in the European Union being granted to all parties. This would have encouraged new competitors to try their hands in EU markets.

There was always a risk, however, that Morocco's strategy would backfire if only because of the reluctance of the European Union to include Mediterranean produce in the free trade agreement which it was then in the process of negotiating with the kingdom. The Commission was under heavy pressure from Spanish, Dutch and Belgian exporters of tomatoes, cut flowers and citrus fruit to use the Gatt negoti-

ation as a means of curtailing Moroccan access to EU markets, to the detriment, in Moroccan eyes, of European consumers. Indeed, such Moroccan produce is of higher quality and somewhat cheaper than its Dutch, Belgian and Spanish equivalents. Reducing Morocco's capacity to export and earn foreign income also rebounds on those European companies which export to the kingdom. Morocco simply has fewer means to pay for new machinery and other goods, most of which it buys in Europe.

The dilemma that Moroccan policy planners face today is all the more acute because the country's farming sector is at a crossroads. The uncertainty

from 1,000 to 3,000 tonnes between 1988-89 and 1989-93. Overall, this sector employs an estimated 300,000 people and 1.5m Moroccans depend on it for their livelihoods.

The potential adjustment costs if no agreement is brokered between Morocco and the EU would be considerable, quite apart from lost exports. Writing down capital would be expensive and technical know-how would be lost. The social consequences in a country with severe unemployment would be heavy.

A recent World Bank report on "agro-industrial development - constraints and opportunities" estimates this sector's contribution to GDP at 5 per cent, its contribution to

To date, the European Union has used its financial muscle essentially to extend aid to Morocco rather than to allow free trade. This "aid rather than trade" policy, which is part of the logic of the Common Agricultural Policy, has the perverse effect of doing little to ensure long-term stability in a key southern partner of Europe.

No-one in Morocco disputes that the kingdom itself must put its house in order. The same World Bank report points out that "despite significant efforts by several government agencies to ensure quality, these efforts are uncoordinated and, at times, incoherent." Credit to agriculture is another constraint. Short-term loans are available.

However, the report says, "scarce long-term finance is rationed among enterprises via high collateral requirements and loan guarantees. This policy militates against newer and less-established enterprises. Even for those with access to 'formal credit', they have to finance long-term investment with short-term loans, which increases their financial vulnerability." The banks, as in other sectors of the economy, seldom seem to act as promoters of economic activity.

In the past decade, Morocco has switched from an inward-oriented and regulated approach of its economy to an outward-looking policy which relies on market mechanisms. New technology, marketing structures and consumer preferences worldwide, however, are forcing the pace of change. Morocco's food processing industry is still in its infancy. The full integration of Spain and Portugal into the European Union the year after next will inevitably erode some of the preferential treatment its farm exports have enjoyed.

As farming and food processing provide the livelihood of half the kingdom's 28m people, its well-being is a key to future social and political stability. In the eyes of Moroccans who have a stake in these matters, the sooner the uncertainty in its relations with the European Union ends, the better.

Francis Ghiles

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(Oued Zem Cotton Industries)  
Spinning of 100 PC combed cotton  
Capacity: 76,000 spindles  
Production: 7,000 metric tons  
ODI's share: 94.49%

SETAFIL\*  
Settat Filature  
Spinning of cotton  
Capacity: 2,300 metric tons  
ODI's share: 44.23%  
IFC's share: 10%  
SOMED's share: 19.23%

\* Some ODI's companies under privatization program. For more information, please contact ODI.

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Francis Ghiles looks at the problems of the energy sector

## Shortages seem likely to persist

Power shortages are nothing new in Morocco. Nor, for that matter, are power cuts. Throughout the 1980s, however, power cuts affected factories and were all but invisible to the public at large.

In the autumn of 1992 the cuts took a turn for the worse. The National Electricity Office (ONE), which has a monopoly of electricity generation, and the municipal distribution companies (Régies) were forced to cut off customers, often entire industrial zones, and stop television programmes between 2pm and 6pm. Such cuts hit the country's industrial production and undermined the arguments put forward by senior officials keen to attract foreign investment to the kingdom.

The immediate cause of the cuts was a drought. Hydroelectricity usually accounts for 15 per cent of all electricity in Morocco, but its share two years ago was cut to 4 per cent.

However, the root causes of the persistent shortages are more deep-seated. They include a substantial build-up of unpaid bills and debts throughout the sector; a lack of autonomy from government ministries which discourages management initiative; a lack of co-ordination among the enterprises within the sector; the absence of an economically sound approach to tariff regulation; and finally the lack of a

clear legal code and regulatory system.

The sheer size of unpaid bills underlines the problem. As of March 1993, ONE clients were approximately \$500m in arrears. Of that amount the Régies owed ONE about two-thirds. In turn, the Régies were owed substantial amounts by their customers, mainly in the public sector.

Though ONE has for 40 years had a monopoly on the production of electricity, it has never been able to manage existing and potential demand, because of political interference.

In particular, ONE has had no influence on price setting, tariffs and distribution. Tariffs do not properly reflect economic costs. This explains, for instance, why peak demand represents 180 per cent of base demand and lasts only five hours every day. Low tension electricity is sold more cheaply than high tension electricity, even though it is more expensive to produce. Industrial users subsidise domestic ones.

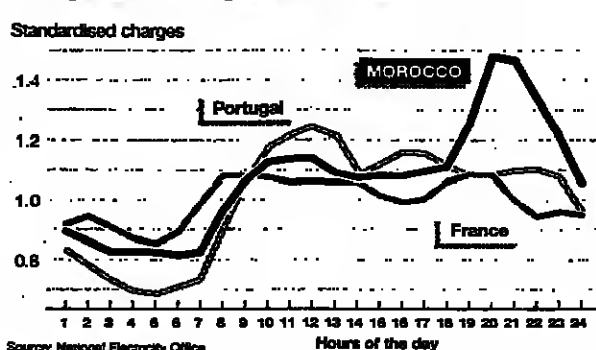
One half of all purchases of electricity are conducted through local Régies, which are jointly controlled by local

authorities and local representatives of the state. The results are predictable. Funds and appointments have long been mismanaged. In some areas of Morocco such as Tetuan ONE and local authorities competed to build power lines and then fought for clients who could not afford to plug into the available power because the cost of doing so was set so high by the local authorities. The drought was thus, in the words of one senior Moroccan official, "akin to knocking a paralytic to the ground".

The panic buying of nine gas turbines at a total cost of \$300m has enabled ONE to produce an extra 300 megawatts but running costs are three times those of a coal-fired power station. Gas turbines, designed to run on diesel for short periods, have been running continuously. So there has been inadequate time to do daily maintenance or clean the residue of the heavy diesel fuel from the turbines which have sometimes broken down.

Installing new capacity in a hurry may solve the problem in the short term but senior officials accept that it will do

Comparative daily electric load curves



Source: National Electricity Office

little to avoid shortages at a later stage. Demand is growing at about 7 per cent per annum, but it must be reduced in a systematic way, notably by discouraging it at peak times through special tariffs, encouraging energy efficiency and building new capacity. The constraints imposed in recent years on spending have pushed the government into looking for the first time, at the idea of private investment in electricity generation.

There are three keys to a successful policy apart from

new men - the leadership of ONE was changed at a stroke last March.

1 Morocco must allow for a rise in demand for electricity and double its present generating capacity to around 5,000 megawatts by the year 2000.

2 ONE, which has a heavy public service obligation and is handicapped compared to potential private investors, must be allowed a freer hand.

3 A clear legal code for regulating the sector and the predictable and sound caucus of rules governing tariffs must be

adopted, which will allow ONE to address the needs of a modern economy.

There are three ways in which power generation can be increased, all of which are now being pursued. The first is to sub-contract primary power generation to private companies. This is being done at Jorf Lasfar, south of Casablanca, where tenders have gone out for the management of two existing coal fuelled stations which produce 600 megawatts and the building of two new ones which will produce an equivalent amount of electricity. Leading western groups such as ABB, AES-GE, Els, Endesa, National Power and Bechtel are competing for a contract which over a 10-year period is worth \$1.4bn.

The second source of energy will be the transit fee in gas that Morocco will collect from the Maghreb Europe Pipeline (GME) which will carry gas from Algeria to Spain and Portugal. Construction has just begun. Gas from this pipeline will fuel two combined cycle plants, due to be built in Kenitra and Mohammedia, which will produce 300 megawatts each.

Electricity interconnections with Algeria, which allow Morocco to purchase up to 150 megawatts, already exist. By 1996 the planned interconnection with Spain will enable Morocco to purchase 300 megawatts, a figure which will rise to 600 by the year 2000.

Recasting the institutional framework is the third challenge Morocco faces. Political involvement at all levels reduces management autonomy and effectiveness.

Some examples illustrate the problem. ONE's investment plan is developed and financed in a way which reflects immediate problems facing the government. Financial constraints have led to a preference for bilateral aid financing rather than commercial credits, which in turn leads to delays in realising projects.

ONE must pay import taxes which amount to 50 per cent of the import value of fuel; in Tunisia and the Iberian peninsula such taxes amount to 1.5 per cent or nothing respectively. Individual electricity boards have a social role, thus connecting customers is sometimes driven by political and

social pressures rather than by the pursuit of commercial gain. Privatising local boards could well provide an answer. Tariffs must reflect economic costs, be adjusted to inflation and not penalise industry. Two-part tariffs for low voltage must be introduced, and more sensitive tariffs for all customers are a must.

Such changes, some Moroccans argue, are difficult to introduce because of metering problems. All customers paying a peak tariff would need a new meter. Also, there is the problem of explaining to customers why there is a peak tariff.

Changing bulk supply tariffs will be difficult politically if it entails a change from the previous "no win no lose" policy. It is, however, fair to point out that the crisis of 1992 opened people's eyes. Those now in charge of the sector - Mr Abdellatif Guerrai at the Ministry of Energy and Mines and Mr Driss Benhima, the new head of ONE - are able hands-on operators.

They know, as do their colleagues in government, that the number of households in the countryside which receive electricity must be pushed up above the current level of 30 per cent and that efforts to promote the activities of local entrepreneurs and attract foreign investment will come to little if there is no power to back up such activities.

### WATER RESOURCES

## Consumers must pay more

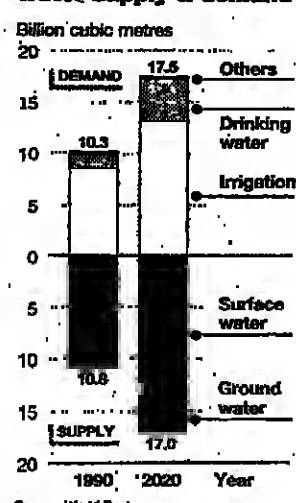
Improving the management of its water resources is one of the key challenges that Moroccan planners face over the next decade. Morocco, where per capita renewable water resources are estimated at 833 cubic metres, is currently, in the jargon of specialists, "water stressed". By the year 2020 per capita water resources are expected to be halved to 411 cubic metres. The country would then qualify as "chronically water stressed".

Drinking water reaches only 14 per cent of the rural population, while resources in a number of important water basins are being exhausted as the infrastructure deteriorates. But much has been achieved, in contrast to neighbouring Algeria.

Perched on the north-west tip of Africa, Morocco is subject to diverse climatic conditions. The port around Tangier and in the Rif mountain range is very Mediterranean, the south is quite Saharan and the western coastal plains are subject to Atlantic influences.

Average annual precipitation levels vary from 750mm in the north to below 100mm in the south. Total rainfall averages 150bn cubic metres a year, 30bn of which replenish sur-

Water supply &amp; demand



Source: World Bank

face and ground water flows, the rest being lost in evaporation. Uneven geographical distribution of resources is compounded by uneven and erratic rainfalls. Morocco is susceptible to long periods of drought. Half of Morocco's 26m people live on the land, and agriculture provides the livelihood to 40 per cent of the economically active population, contributing around 17 per cent of gross domestic product. Excellent

rainfall last winter explains the 11 per cent expected growth in GDP this year; drought more often than not results in a decline in GDP.

Barely 14 per cent of countryfolk have access to safe and reliable supplies of water, for which they pay up to 10 times as much as in town. Contamination of water resources accounts for half of all illnesses in such areas.

Agriculture is by far the largest user of water, accounting for 65 per cent of mobilised resources, a figure which is projected to decline to 77 per cent by the year 2020. Drinking and industrial needs account for the balance.

The greatest challenge facing the authorities is that of the supply and demand balances. Shortages are already evident in a number of river basins. Moroccan water resources are unevenly distributed between basins. Almost 50 per cent of total resources and 93 per cent of current regional surpluses

are concentrated in the Sebou and Oum Er Rabia basins. The Casablanca and Rabat-Sale metropolitan areas, which account for 25 per cent of all residential and industrial water demand today, already supplement scarce local resources with water imported from the Oum Er Rabia basin.

Reallocating water resources from irrigation to higher value urban and industrial customers without unnecessary hardship to deprived rural communities is a major issue. Such transfers are inevitable but they need not penalise farming if the efficiency of water use in agriculture is increased. To give but one example, a 20 per cent reduction in water requirements in the Doukkala

irrigation perimeter would postpone the need for alternative resources for the Casablanca region until 2050.

The creation of tradeable water rights in these circumstances may provide a solution but it leads to some interesting questions. Could Casablanca contribute to improving efficiency in the Doukkala perimeter in order to be guaranteed secure water supplies at a cost below such expensive alternatives as desalination?

Another aspect of the challenge is that, faced with higher water charges, farmers may be expected to substitute higher value and less water-intensive crops. However the market opportunities for these crops may be limited, thus raising

doubts as to their viability in some irrigated areas.

A deterioration in the quality of water constitutes another challenge. Water pollution from domestic, industrial and agricultural sources is approaching critical levels in the two most important river basins. Drinking water supplies have been suspended several times in the Sebou basin and quality problems have occurred in Oum Er Rabia.

The constraints on government spending argue in favour of shifting the costs burden more rapidly towards customers. Until recently, the state budgets financed virtually all water investment. Senior Moroccans accept this is no longer possible.

Urban tariffs today cover operational and maintenance charges for water supplies and sewage, as well as the financial charges associated with the treatment, pumping and distribution of water. But they take no account of marginal costs, most notably the construction of dams. An even greater imbalance lies in the difference between water tariffs in towns and irrigation, the latter representing one fifth of the former.

The deterioration of the infrastructure is yet another problem and the return from existing investment could be significantly raised by improved maintenance. The silting up of dams is a major concern, having already diminished available capacity by as much as one quarter. Conveyance losses in irrigation canals are believed to be as high as 25 per cent. Giving greater weight to efficiency and pricing criteria can thus be expected to yield considerable benefits.

Government spending on

mobilising and distributing water is projected to rise by 350 per cent to 2 per cent of GDP by the end of the decade.

Some specialists question whether too many resources are being devoted to the expansion of large-scale irrigation. Some 80 per cent of the \$1.8bn National Irrigation Plan budget up to the end of the century is earmarked for such expansion and a further \$1bn to rehabilitating existing irrigation systems.

World Bank experts who have been actively involved in financing the development of Morocco's water resources believe that it remains to be demonstrated that the proposed expansion of irrigated areas will prove competitive in terms of economic, social and environmental returns on investment. They believe the balance of investment should be shifted in favour of rehabilitating existing investments.

Francis Ghiles

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### Universities Message of the Prophet

In 1990 an oil spillage off the Atlantic coast threatened to cause great damage. King Fahd of Saudi Arabia offered King Hassan of Morocco \$50m to help contain it. In the event, strong winds averted a catastrophe, writes Francis Ghiles.

However, King Hassan used the money to realise a dream, creating a university inspired by the Anglo-Saxon education system instead of the French one, which governs all the other universities in Morocco.

Four years later, a new campus has risen on the outskirts of Ifrane, a mountain station south of the old imperial city of Fez in Northern Morocco.

The first students out of a total which will rise to 3,500 started to attend classes in September 1994. They are all post-graduates in three faculties - business administration, humanities and social sciences, sciences and engineering.

It is a private university, where all students pay fees. Donations have enabled scholarships to be offered, as the king does not want the university to draw its students exclusively from the wealthy Moroccan bourgeoisie.

"Al Khawayn" (the two brothers) is a revolutionary concept for Morocco. It aims to renew its cultural past and is part of the king's aim of tying the country to Europe while promoting links between Arab states, Palestinians and Israel. The campus is built around a mosque, but boasts a synagogue and a church.

The Moroccans have been advised by the Texas International Education Consortium, which regrouped the 32 state universities of Texas, on the curriculum. The degrees will be recognised in the US.

The university has three research centres devoted to Islamic culture and the arts, natural resources and strategic studies. Researchers, drawn from all over the world, will form part of the teaching staff.

The "Al Khawayn" aims to encourage serious debate on Islamic values and how they relate to the modern world. Its success would show that Islam can modernise the message of the Prophet and avoid the narrow interpretation of the Koran promoted by many fundamentalist movements today.



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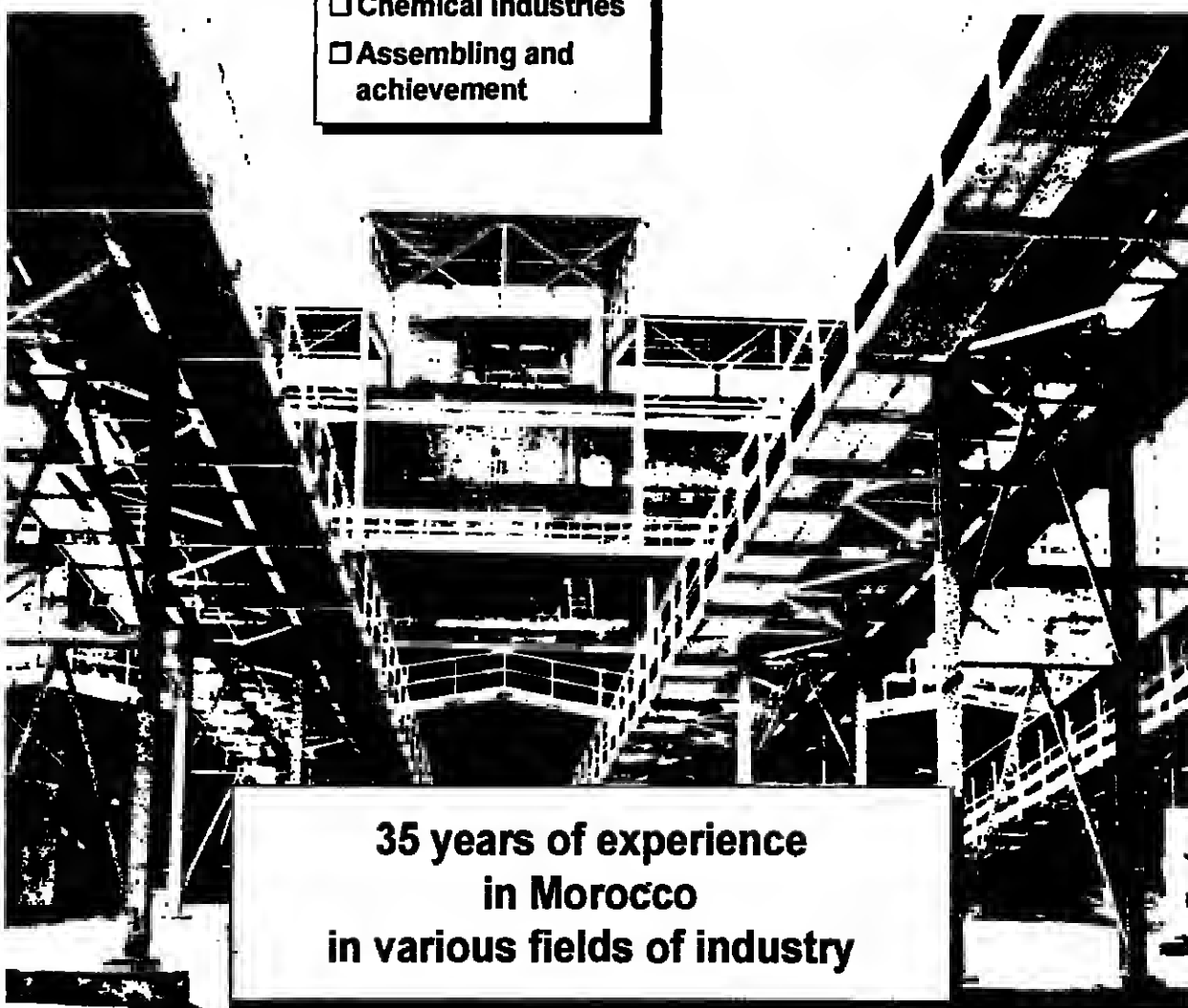
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means ...

know-how ...

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## COMMODITIES AND AGRICULTURE

## Metal profits down for fifth year

By Kenneth Gooding

The financial performance of the western world's non-ferrous metals producers deteriorated for the fifth successive year in 1993, according to the annual analysis of nearly 200 companies by the Metals & Minerals Research Services consultancy group.

An improvement in the fortunes of precious metals producers failed to compensate for further deterioration in those of the base metals businesses, it suggests.

On two key ratios the industry recorded its worst result since MMRS started collecting these statistics 15 years ago; operating profit margins were only 5.8 per cent and the average return on capital employed was down to 4.3 per cent.

On most other ratios last year's performance was the worst since 1982.

According to MMRS, the industry's aggregate operating profit has fallen by 71 per cent since 1989. Nickel producers

Aggregate Profit & Loss Account of Sample (in millions of US dollars)				
	1991	1992	1993	
Operating revenue	167,009	166,524	148,288	
Operating costs	(153,974)	(154,945)	(136,728)	
Operating profit	13,035	11,579	8,560	
Other income	594	358	783	
Net interest payments	(4,660)	(4,203)	(3,586)	
Pre-tax profit	8,969	7,734	5,757	
Mining and income taxes	(4,170)	(4,088)	(4,428)	
Profit after tax	4,799	3,646	1,329	
Attributable to minorities	(442)	(429)	(451)	
Share of net associate incomes	176	13	354	
Preferred dividends	(163)	(226)	(227)	
Earnings for ordinary shares	4,369	3,003	934	
Extraordinary post-tax losses	(878)	(2,578)	(261)	
Earnings for ordinary shares after extraordinary losses	3,491	425	673	

Source: MMRS

last year joined lead/zinc companies in recording an operating loss while the slide for aluminium producers has also been greater than the average.

However, MMRS says a clear ranking emerged in the minerals industry last year, with gold and platinum producers leading profitability on all measures; copper and divers-

fied producers doing best among base metals; aluminium ranking sixth-best (or fourth-worst) overall and nickel, lead, zinc and silver companies generally in loss.

The analysis suggests that the industry's operating revenue fell last year from \$166.5 billion to \$148.3 billion, but its net earnings, after all charges, rose from \$4.8 billion to \$5.8 billion. Nevertheless, this bottom line was the worst in real terms since a loss was registered in 1982.

MMRS says the one bright spot in its analysis is gearing. "Although high for a number of individual producers and sectors, this ended last year little different from historical norms," it says. In the early 1980s, debt has been kept under control in the recent market downturn. New issues of equity have also helped.

1994 World Minerals Industry Financial Review: 2850 from MMRS, 2 Henry Street, Bath, Avon, BA1 1JT, UK.

## Recovery in iron ore prices forecast as steel output surges

By Frances Williams in Geneva

A recovery in iron ore prices, which have been severely depressed for the past three years, now seems imminent, according to government and industry experts meeting in Geneva to review iron ore market developments.

The experts are predicting an upsurge in global steel production and consequently in the world market for iron ore next year, following strong demand in 1994. World iron ore exports are expected this year to rise by more than last year's 8 per cent, when they totalled 988m tonnes.

This has not been enough so far to prevent another collapse in iron ore prices, by nearly 20 per cent over 1993-94. Prices remain around 25-30 per cent below the 1991 level, depressing export earnings despite higher shipments. In 1993 iron ore transactions amounted to \$7.55 billion, the lowest value since 1989, and in 1994 too lower prices are expected to offset increased exports.

In 1995, however, the market is expected to improve sufficiently to push prices up. Steel production is increasing all over the world, except in the Americas and Africa, where prices are soaring and demand for primary iron products is rising. The world supply of pellets and lumps remains tight.

The United Nations Conference on Trade and Development, sponsor of the three-day meeting that ended yesterday, says low prices have not been conducive to new greenfield projects but companies are continuing to invest in replacement and expanded capacity to assure long-term supply.

Four major projects have started this year, in Mauritania, Brazil, Australia and Venezuela. Other projects are under way in Australia, Chile, China, India and Sweden. Meanwhile, ownership concentration in the iron ore industry is increasing, according to Mr Magnus Ericsson, of

Sweden's Raw Materials Group. He told the meeting that the production share of the three biggest iron ore companies had risen from 19 per cent in 1975 to 34 per cent in 1993. Cia Vale do Rio Doce, a state-owned Brazilian producer, leads the field, followed by Broken Hill of Australia and Britain's RTZ.

Mr Ericsson said this defied the trend to deconcentration in most of the main non-ferrous minerals and metals markets. He attributed the difference to the huge size of the iron ore industry and the potential for scale economies, the presence of big deposits of high-grade ores and steep cost barriers to entry.

Mr Ericsson noted that steel companies had weakened their grip on the iron ore industry, with only four steel companies among the top ten producers. The top 20 iron ore mining companies now included three Chinese, three Russian, two Ukrainian and one Kazakh, he pointed out.

## Aluminium chief sees bridge to prosperity

By Kenneth Gooding, Mining Correspondent, in Atlanta

More than 200,000 bridges in the US are structurally deficient or functionally obsolete. If aluminium was specified in only one-third of all bridge repair or replacement projects, at least an extra 400m lb a year of the metal would be required.

Mr Richard Holder, chairman of Reynolds Metals, the world's third largest aluminium company, gave these statistics yesterday in an upbeat presentation about potential future demand for the material.

He suggested that the infrastructure market offered the industry tremendous potential because many countries were faced with crumbling bridges and highways, leaking water and sewer lines and ageing mass transit facilities. Meanwhile, many developing countries were now creating infrastructure systems.

Alnsaf of South Africa said yesterday it would consider further expansion if the metal's present price recovery was sustained, but only once its Hillside project was up and running, reports Reuters from Johannesburg.

The company was due to start bringing on stream an extra 460,000 tonnes of aluminium from mid-1995 at Hillside, but start-up had been brought forward by five months and there was no room to accelerate it further, a company official said, as aluminium climbed to a four-year high of more than \$1,800 a tonne on the London Metal Exchange.

However, if the price recovery was sustained Alnsaf would accelerate its long-term plans to upgrade potrooms B and C at its existing Bayside smelter.

That could produce an extra 40,000 tonnes of aluminium a year over current annual output of 170,000 tonnes at Bayside.

Speaking at Alumitech 94 in Atlanta, the biggest exhibition and conference about aluminium ever organised by the industry, Mr Holder also predicted that the use of aluminium in North American cars would grow by another two-thirds by the year 2000.

Having risen by 23 per cent last year to 210lb on average per car, it was expected to rise

to 350lb by the end of the decade. "That projection may even be conservative because it does not count on a lot of body sheet applications which from 30 countries to visitors the day," he added.

Mr Holder said there were tremendous prospects for aluminium because outside the US, a country where the metal now had 98 per cent of the market and where ship-

ments this year would total more than 100bn cans for the first time.

"Within the next 25 years, the aluminium beverage can will have as great a presence within Latin America, the Middle East and eastern Europe as it has today in the US," he said.

Reynolds predicted a 65 per cent growth in the global aluminium beverage can market by the year 2000.

Alumitech, sponsored by the US Aluminium Association, is designed to provide a forum for exchanges of information on the most important technical, environmental and market place issues facing the industry and attract visitors from 30 countries to hear 120 speakers at 50 discussion sessions.

It takes place, as Mr Holder pointed out, when the aluminium industry is turning a corner from the most difficult four years in its history.

## Copper soars

COPPER prices soared at the London Metal Exchange yesterday as US investment funds

bet on a recovery in the strong European market, profit-taking set in, as expected, but the three months delivery price still ended \$49 up at \$2,635 a tonne. Earlier it had reached a 4-year high of \$2,650.

Three months ALUMINIUM moved above \$1,800 a tonne like a hot knife through butter and hit \$1,835 before speculators began to cash in profits. It ended at \$1,820, up 58¢.

The investment funds also found time to push London SUGAR futures to 1994 highs, despite a dearth of fundamental news. The funds wanted to push the market above resistance levels in order to set up potential profits, traders explained.

Compiled from Reuters

## 'Super rice' could boost harvests by 25 per cent

By Deborah Hargreaves

A new breed of "super rice" that can produce 25 per cent more grain on the same amount of land and help feed an additional 450m people a year has been developed by scientists at the International Rice Research Institute, the World Bank announces this week.

The new strain is capable of yielding 5 tonnes per acre on irrigated land compared with 4 tonnes for existing varieties. It is widely planted, the World Bank estimates that the new breed of rice could produce 100m tonnes more each year than is now grown.

This extra rice could help feed a population boom expected over the next 30 years when demand for rice is expected to increase by 60 per cent

to 350m tonnes. "It's not possible to step up rice production dramatically by planting on new land," said Mr Ismail Serageldin, chairman of the World Bank's consultation group on international agricultural research of which the rice institute is part. He points out that good rice land is being lost to expanding urban centres.

The rice institute has developed over 300 varieties over the past 30 years. It has managed to increase the yield of its new breed by improving the grain to straw ratio of the plant.

More tests need to be conducted on the new breed of rice before it can enter commercial production, but the rice researchers are already trying to cross it with other hybrids to improve yields further to a possible 6 tonnes per acre.

## Parisian exchange studying wheat futures

By Andrew Jack in Paris

Matif, the French futures and options market, is moving closer to developing a new market for financial derivatives in wheat, its president said yesterday.

The decision to launch the new market would depend on liberalisation of the existing regulations controlling the price of wheat and is unlikely to take place for a number of months.

Mr Gerard Pfauwadel, Matif president, said: "Wheat prices are not determined by the market but by technicians in Brussels. They are still partially subsidised. We are waiting for volatility of prices. We need a market game."

Tomorrow the Matif launches a market in futures for rapeseed, in response to deregulation of the price for oilseeds in 1992. It already operates markets for white sugar and potatoes.

Market officials said yesterday they would also consider the possibility of developing futures products in related oilseed products, such as sunflower oil, and in rapeseed options or other derivatives if the rapeseed futures market proved successful.

Experts at Matif have been studying the possibility of developing wheat products, but are reliant on the planned liberalisation of the determination of the commodity's prices through reforms to the European Union's common agricultural policy and the General Agreement on Tariffs and Trade.

Mr Pfauwadel said he believed that one of the few potential growth areas for developing new products at the Matif was in commodities, and particularly agricultural products - reflecting the farming roots of French society.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY (\$ per tonne)

Close 1794.5 1794.5

Previous 1716.5-1.5 1714-2

High/Low 1802 1830/1785

AM Official 1804.5

Kerb close 1819.4

Open int. 256,842

Total daily turnover 73,740

■ ALUMINIUM ALLOY (\$ per tonne)

Close 1730.50 1730.50

Previous 1720.50 1720.50

High/Low 1750.50 1750.50

AM Official 1750.50

Kerb close 1750.50

Open int. 2,962

Total daily turnover 17,950

■ LEAD (\$ per tonne)

Close 658.5-1.5 670.5-1.5

Previous 658.5-1.5 658.5-1.5

High/Low 674.5-1.5 674.5-1.5

AM Official 674.5-1.5

Kerb close 674.5-1.5

Open int. 41,931

Total daily turnover 18,155

■ NICKEL (\$ per tonne)

Close 7205-15 7320-25

Previous 7205-15 7205-15

High/Low 7310-15 7310-15

AM Official 7310-15

Kerb close 7310-15

Open int. 66,861

Total daily turnover 16,995

■ TIN (\$ per tonne)

Close 5600-70 5745-50

Previous 5600-70 5600-70

High/Low 5745-50 5745-50

AM Official 5745-50

Kerb close 5745-50

Open int. 17,338

Total daily turnover 8,362

■ ZINC, special high grade (\$ per tonne)

Close 1099-1100 1121-2

Previous 1099-1100 1099-1100

High/Low 1121-2 1121-2

AM Official 1121-2

Kerb close 1121-2

Open int. 101,437

Total daily turnover 38,393

■ COPPER, grade A (\$ per tonne)

Close 2621-2 2630-0

Previous 2621-2 2621-2

High/Low 2630-0 2630-0

AM Official 2630-0

Kerb close 2630-0

Open int. 211,982

Total daily turnover 116,225

■ LME AM Official 275 rate 1.6330

LME Closing 275 rate 1.6330

Sept 1.6330 3 mths 1.6327 6 mths 1.6301 9 mths 1.6285

■ HIGH GRADE COPPER (COMEX)

Close 123.50 123.50

Previous 123.50 123.50

High/Low 123.50 123.50

AM Official 123.50

Kerb close 123.50

Open int. 123.50

Total 123.50

1 month -4.50 6 months -4.46 12 months -4.43 3 months -4.91

Silver Fix p/roy oz. US cts equiv.

Spot 324.50 324.50

3 months 325.35 325.35

6 months 334.45 334.45

1 year 346.90 346.90

Gold Coins 3 price \$ equiv.

Kruggerand 391-394 391-394

Maple Leaf 399.85-402.15

New Sovereign 91-94 91-94

## Precious Metals continued

## ■ GOLD COMEX (100 Troy oz; \$/troy oz)

Oct 398.2 -0.1 398.2 398.2 39 0

Nov 398.0 -0.2 -

Dec 391.0 -0.2 391.0 391.0 16,498

Jan 394.5 -0.2 394.5 394.5 19,239 131

Feb 398.1 -0.2 398.0 398.0 8,139 231

Mar 400.5 -0.1 400.5 400.5 392 59

Total 401.7 -0.2 401.7 401.7 157,584 17,983

■ PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Oct 427.0 +2.8 425.5 425.5 48 3

Nov 427.0 +1.6 427.0 425.5 26,387 1,431

Dec 431.8 +0.1 431.0 429.5 3,646 110

Jan 438.8 +1.8 -

Feb 440.5 +1.8 440.5 440.5 392 59

Mar 443.5 +1.8 -

Total 443.5 +1.8 - 26,494 1,496

■ PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Oct 158.15 +0.35 158.70 157.50 4,222 273

Nov 158.35 +0.35 158.75 158.25 1,732 197

Dec 161.35 +0.35 -

Total 161.35 +0.35 - 6,438 400

■ SILVER COMEX (100 Troy oz; \$/troy oz)

Oct 538.6 +0.4 -

Nov 538.8 +0.2 -

Dec 541.2 +0.2 540.0 531.8 73,144 10,401

Jan 543.8 +0.2 -

Feb 547.2 +0.2 546.0 540.0 15,835 723

Mar 558.8 +0.3 558.0 546.5 4,088 23

Total 558.8 +0.3 558.0 546.5 111,347 11,288

■ CRUDE OIL NYMEX (42,000 US gals; \$/barrel)

Oct 17.85 +0.17 17.85 17.85 28,741

Nov 17.82 +0.17 17.85 17.85 11,937

Dec 17.85 +0.17 17.85 17.85 30,376 4,338

Jan 17.81 +0.17 17.85 17.85 25,846 3,381

Feb 17.78 +0.17 17.85 17.85 17,016 988

Mar 17.78 +0.17 17.85 17.85 17,707 606

Total 17.78 +0.17 17.85 17.85 281,088 60,806

■ CRUDE OIL ICE (\$/barrel)

Oct 16.75 +0.17 16.75 16.75 82,202 18,811

Nov 16.71 +0.17 16.75 16.75 34,504 3,527

Dec 16.72 +0.17 16.75 16.75 14,230 2,403

Jan 16.71 +0.17 16.75 16.75 16,528 2,600

Feb 16.71 +0.17 16.75 16.75 16,528 2,600

Mar 16.71 +0.17 16.75 16.75 16,528 2,600

Total 16.71 +0.17 16.75 16.75 107,208 34,023

■ HEATING OIL NYMEX (42,000 US gals; \$/barrel)

Oct 49.30 +0.14 49.35 49.35 14,368 3,738

Nov 49.25 +0.14 49.35 49.35 42,463 11,728

Dec 49.25 +0.14 49.35 49.35 32,269 8,121

Jan 49.25 +0.14 49.35 49.35 18,364 4,115

Feb 49.25 +0.14 49.35 49.35 11,090 2,811

Mar 49.25 +0.14 49.35 49.35 8,328 158

Total 49.25 +0.14 49.35 49.35 197,116 56,900











**TRANSPORT - Cont.**[illegible]

Year	1984	1985	1986	1987	1988
High	11.4	11.4	9.3	2,790	4.0
Low	7.5	10.5	7.1	1,409	4.0

### NEWS

Year	1984	1985	1986	1987	1988
High	11.4	11.4	9.3	2,790	4.0
Low	7.5	10.5	7.1	1,409	4.0

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It has come to our knowledge that unscrupulous middlepersons have been using the name of **OMNI - COMMERCE S.A.** to promise sums of money supposedly provided by that Company to persons or businesses seeking funds.

These middlepersons assure the would be borrower that they can obtain any appropriate guarantee for them to be granted such funds. Taking undue advantage of the borrowers, they request a commission of between **US\$ TEN THOUSAND AND FIFTY THOUSAND** (or the equivalent in local currency), payable in advance. In their urgent search for help the borrowers pay the commission and, needless to say, no guarantee is ever obtained and the funds never materialise.

**OMNI - COMMERCE S.A. ISSUES A SERIOUS WARNING TO POTENTIAL BORROWERS TO BEWARE OF SUCH OFFERS.** OMNI - COMMERCE S.A. wants it clearly established that any genuine offer shows explicitly that its costs, as well as those of any middleperson duly appointed if any, must be deducted from the sums borrowed at the date of the actual transfer of funds to the borrowing party.

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# WARNING











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## AMERICA

Early gains evaporate  
on interest rate fears

## Wall Street

US stocks attempted to rally yesterday morning but the early gains evaporated amid nagging concerns over interest rates, writes Frank McGurty in New York.

By 1 p.m. the Dow Jones Industrial Average was 2.89 lower at 3,447.90, while the more broadly based Standard & Poor's 500 was up 0.48 at 462.00.

On the NYSE, declining issues were holding an 11-to-eight edge over advances by early afternoon, in moderate volume of 172m shares.

In the leading markets, the American SE composite was off 0.13 at 452.72, but the Nasdaq composite added 2.24 to 790.50.

Stocks opened solidly higher, with the market trying to reverse direction after four losing sessions. There was relative tranquillity in early trading in the bond and foreign exchange markets, and the day's only piece of economic news failed to excite much interest.

The commerce department reported that factory orders of durable goods had risen just 0.1 per cent in September after a big gain in the previous month. Analysts had forecast a 0.6 per cent rise, but with most investors holding off on fresh commitments, at least until after Friday's reading on third-

quarter economic growth, the data had virtually no impact.

Concerns over an imminent move by the Federal Reserve to lift short-term rates, and the move in long-term rates above 6.00 per cent, were never too far from the surface. By early afternoon the jitters got the best of the market, and most share prices were showing modest losses.

The morning brought a few more pleasant earnings surprises. Most notably, Ford showed an impressive gain in net income and revenues, in contrast with General Motors, which last week revealed details of a disappointing third quarter. But its share price could only manage to inch 1/4 ahead to \$29.14. GM was unchanged at \$41.14, and Chrysler added 1/4 at \$47.11.

Tenneco, a diversified industrial group, posted net income which had nearly doubled from the year earlier and topped the consensus forecast of analysts. However, the issue, up 1/4 at \$43.75, hardly budged. By contrast, its Case farm equipment business, which reports separately, jumped 1 1/2 to \$20.00 on strong results.

Sara Lee, a food processor, also impressed investors with solid gains in net income and revenues in its first fiscal quarter. Its share price climbed 1 1/2 to \$24. Borden added 1/4 to \$13.75 even though it reported another loss and slashed its dividend. Philip Morris gained

1 1/2 to \$33.75. In pharmaceuticals, McKesson surged 5/4 to \$105.75 after Eli Lilly extended the waiting period for its tender offer for the company's shares until November 3. Lilly dropped 1/4 to \$59.75.

## Canada

Toronto stocks turned sour at midday after opening stronger on technical grounds. The TSE 300 composite index eased 1.37 to 4,241.40 in volume of 175.5m shares valued at C\$337m.

Eight of the market's 14 sub-indices fell, led by precious metals which dipped 66.08 to 10,396.49. Among the winners the base metals group backed off from earlier highs, trading 31.60 higher at 1,411.44 after a 420.48 with incu up C\$4 at C\$40.14 in busy trade.

Other active stocks included Royal Bank of Canada, flat at C\$27.75 with 1m shares traded, and Noranda Forest, up C\$1 at C\$11.14 in 905,385 shares.

## Brazil

Shares in São Paulo were up 1.5 per cent in moderate mid-session trading as investors continued to look for bargains after the market's recent fall.

The Bovespa index of the 55 most-active shares was up 846 at 46,279 by 1 p.m. Turnover was R\$183.3m (\$214.4m).

In spite of the rally, brokers said that trading was still aimless.

## EUROPE

## Decline in premium on UBS registered

The lack of sustained recovery in the dollar, treasuries and the Dow weighed heavily on domestic bond markets and on bourses yesterday. Early rebounds in European equities were cut back hard, disappeared altogether or turned into further losses, writes Our Markets Staff.

ZURICH took a pragmatic, and painful look at the dollar and a weaker Wall Street, and dropped the SMI index by 17.5 to 2,477.2. Sandoz registered a 1994 low of 194.15 after a 3 per cent rise in nine-month sales, a minimal gain emphasising the way that dollar depreciation has hit into European growth rates this year.

At the same time UBS registered fell SF12.1, or 4.4 per cent to SF12.82 with the bearers down only SF5 at SF11.320, thus reducing the premium on the registered at 1.51:1.44 after a 2.00:50. About half of the recovery reflected post-bourse gains on Tuesday.

PARIS stayed in positive territory, the CAC-40 index finishing 7.12 higher at 1,951.54 after a fall from a session high of 1,982. Turnover remained modest at FF13bn.

## ASIA PACIFIC

## Shanghai A shares decline by 8.1 per cent

## Tokyo

Share prices finished slightly higher in subdued trading ahead of Japan Tobacco's listing today, writes Emilio Terrazano in Tokyo.

The Nikkei 225 index added 14.20 to 19,746.35 after a high of 19,770.75 and a low of 19,705.94. Dealers, who had closed their positions for this month on Tuesday, remained inactive on the last day of trading for October settlements.

Volume remained flat at 218m shares. Only some short-term speculators were actively picking up small capital issues. Overseas investors remained inactive due to the continued strength of the yen.

The Tokyo index of all first section stocks fell 1.46 to 1,566.94 and the Nikkei 300 edged down 0.22 to 396.60. Losers led gains by 509 to 426 with 222 issues remaining unchanged.

In London, the ISE/Nikkei 50 index rose 0.68 to 1,280.03. Strong interim earnings results from companies made no difference to their share price performance. Smith New Court Japan reported that equities had already discounted the fiscal year 1994 results, adding that this had been confirmed by the lack of response to upward profit revisions in September. The broker expected the Nikkei to rise to between 21,500 to 22,000 by the end of the calendar year.

Nippon Telegraph and Telephone rose Y4,000 to Y88,000 on reports that a large number of employees had applied for the company's early retirement scheme.

Japan Telecom, which listed last month and is regarded as an indicator of investor confidence towards Japan Tobacco, fell to an intraday low of Y3.72m before closing unchanged at Y3.75m.

Nippon Television Network jumped Y800 to Y24,200 on reports of a sharp increase in profits due to a recovery in advertising revenue.

Domestic institutional investors sold Mitsubishi OIL, which fell Y10 to Y1,060. Ashimori Industry, a maker of air-bags

## FT-SE Actuaries Share Indices

		THE EUROPEAN SERIES									
		Oct 26	Oct 27	Oct 28	Oct 29	Oct 30	Oct 31	Nov 1	Nov 2	Nov 3	Nov 4
FT-SE 100	1303.62	1304.30	1304.31	1303.35	1304.10	1305.18	1302.25	1300.71			
FT-SE 250	1362.82	1363.25	1364.22	1362.62	1363.73	1364.74	1360.57	1358.10			
FT-SE 100	1303.62	1304.30	1304.31	1303.35	1304.10	1305.18	1302.25	1300.71			
FT-SE 250	1362.82	1363.25	1364.22	1362.62	1363.73	1364.74	1360.57	1358.10			

By the end of the afternoon, however, the mood was looking much less ebullient, with the ill-indicated Dax up 12.60 at 2,008.45. The December Dax future moved from 2,030.0, up 13.5 at the session's close to 2,017.5, up a solitary point at the end of the day.

Turnover eased from DM7bn to DM5.5bn. The share of the day was Mannesmann, up DM11 at DM285.50 with a major foreign order reported after a period of weakness.

Mr Michael Geiger at NatWest Securities in London said that NatWest had estimated an earnings rise for Mannesmann from DM28.10 in 1995 to DM44.60 in 1996, by which time more than half of group profits should come from the mobile telephone side of the business.

PARIS stayed in positive territory, the CAC-40 index finishing 7.12 higher at 1,951.54 after a fall from a session high of 1,982. Turnover remained modest at FF13bn.

James Capel observed that Amsterdam had been one of the best European equity markets in the third quarter, helped by better than expected half year results and optimistic management statements. But, the broker warned, following "a very strong period of prolonged outperformance within Europe, the equity market could gradually become the victim of profit-taking and asset reallocation by international investors".

Foreign investors, particularly from the US and UK, turned sellers of the market during the second and third quarters. Capel concluded that while a rally was to be expected in the short-term following the good batch of company reports, a pause in activity was likely in the first quarter of 1995.

Nedlloyd saw more bargain hunting following falls last week, up a further Ff3.00 or 6 per cent to Ff163.20. DSM rose Ff1.90 to Ff146.80, ahead of next week's third quarter results.

MILAN fell back slightly in a dull session. The Comit index drifted down 3.27 at 510.41.

Trading in Fiat and Generali accounted for about 30 per cent of the day's total turnover of L500bn, with the former rising 1.5 to L5.95, and the insurer losing L413 to L36.70.

There were winners, on the margin. Santander, in banks, and Endesa in utilities produced nine month figures and rose Pta5.10 to Pta5.010 and Pta30 to Pta5.520 respectively. Santander on profits up 5.6 per cent excluding the Banesto acquisition and Endesa on a 13.5 per cent gain at net level.

MADRID registered yet another low for the year, the general index falling 0.85 to 288.05 in turnover of Pta20bn.

There were winners, on the margin. Santander, in banks, and Endesa in utilities produced nine month figures and rose Pta5.10 to Pta5.010 and Pta30 to Pta5.520 respectively. Santander on profits up 5.6 per cent excluding the Banesto acquisition and Endesa on a 13.5 per cent gain at net level.

WARSAW continued to mourn the imposition of a 0.3 per cent transaction tax, and the Wig index fell for the fourth time in succession, by 237.4 or 2.8 per cent to 8,259.7.

Turnover dropped 17 per cent to 579bn zlotys. The steel trader, Stalport, fell on its initial listing to 355,000 zlotys cum dividend from an issue price of 340,000.

Written and edited by William Cochrane and John Pitt

## S African industrials make gains

Shares on the Johannesburg Stock Exchange ended mixed with gold shares closing lower as buyers turned their attention to industrials.

The industrial index turned around from a weak opening to close 34 points up at 6,572, offsetting a 21 point fall on the gold index to 2,280. The overall index improved 5 to 5,706.

Brokers said that buyers returned to industri-

als on bargain hunting based on the view that the fall in recent days had been overdone. Among golds dealers said prices continued to drift lower as the price of bullion failed to recover above \$390 an ounce.

Barlows rose R1 at R32.00 while the petrochemical group, Sasol, finished 65 cents higher at R35.90.

		DOLLAR TERMS				LOCAL CURRENCY TERMS			
		Oct 21	Oct 22	% Change	% Change	Oct 21	Oct 22	% Change	% Change
		1994	1994	over week	on Dec '93	1994	1994	over week	on Dec '93
Market	No. of stocks								
Latin America	(208)	737.13	-3.8	+13.3		575,643.77	-0.4	-5.8	
Argentina	(23)	939.10	-0.8	-3.6		1,241,909.392	-5.1	+1,122.1	
Brazil	(57)	390.01	-7.6	+67.8		1,378.14	+0.4	+44.6	
Chile	(25)	837.13	+0.7	+51.7		1,273.40	-0.6	+37.4	
Colombia	(11)	855.12	-1.3	+32.8		1,416.86	-2.6	+5.0	
Mexico	(97)	961.80	-2.6	-4.4		256.64	-0.8	+61.4	
Peru	(11)	188.71	-0.5	-96.0		2,096.06	-4.5	+47.5	
Venezuela	(12)	537.50	-4.5	-8.2					
Venezuela	(104)	279.69	-0.5	-4.0					
Asia	(118)	102.98	-0.7	-31.0		111.01	-1.7	-32.4	
China	(150)	150.97	-2.9	+27.8		158.27	-3.0	+28.1	
South Korea	(19)	322.38	+6.3	-5.3		392.46	+3.9	-11.8	
Philippines	(9)	156.99	+3.9	+18.1		153.39	+3.4	+14.8	
Taiwan, China	(76)	133.89	-1.8	+14.9		149.20	-1.8	+15.8	
India	(37)	109.52	-1.1	-12.2		129.21	-1.2	-9.2	
Malaysia	(104)	307.28	-1.3	-0.3		289.86	-1.8	-14.0	
Pakistan	(19)	415.98	-1.7	+7.2		578.43	-1.7	+9.5	
Sri Lanka	(5)	196.75	+2.0	+11.0		208.88	+1.5	+9.4	
Thailand	(55)	450.47	+2.2	-5.7		445.37	+1.8	-7.8	
Euro/Mid East	(125)	115.48	-4.0	-31.6					
Greece	(25)	224.87	-0.2	-1.3		350.19	-1.5	-8.9	
Hungary	(6)	183.72	+0.2	+10.2		235.25	+1.7	-7.7	
Jordan	(13)	153.80	+0.4	-7.1		224.05	-0.5	-6.4	
Poland	(12)	575.40	+0.7	-29.8		828.52	-0.2	-25.0	
Portugal	(29)	128.37	+2.6	+12.3		135.00	+0.8	-2.3	
Turkey	(40)	108.13	-10.3	-48.1		1,809.95	-8.6	+24.4	
Zimbabwe	(5)	267.95	+1.7	+32.6		328.14	+1.7	+53.6	
Composite	(850)	361.38	+2.3	+1.8					

Indices are calculated at end-week, and weekly changes are percentage movements from the previous Friday. Base data: Dec 1990-1993 except those noted when and (Y) for 1994; (Y) for 1995; (Y) for 1996; (Y) for 1997; (Y) for 1998; (Y) for 1999; (Y) for 2000; (Y) for 2001; (Y) for 2002; (Y) for 2003; (Y) for 2004; (Y) for 2005; (Y) for 2006; (Y) for 2007; (Y) for 2008; (Y) for 2009; (Y) for 2010; (Y) for 2011; (Y) for 2012; (Y) for 2013; (Y) for 2014; (Y) for 2015; (Y) for 2016; (Y) for 2017; (Y) for 2018; (Y) for 2019; (Y) for 2020; (Y) for 2021; (Y) for 2022; (Y) for 2023; (Y) for 2024; (Y) for 2025; (Y) for 2026; (Y) for 2027; (Y) for 2028; (Y) for 2029; (Y) for 2030; (Y) for 2031; (Y) for 2032; (Y) for 2033; (Y) for 2034; (Y) for 2035; (Y) for 2036; (Y) for 2037; (Y) for 2038; (Y) for 2039; (Y) for 2040; (Y) for 2041; (Y) for 2042; (Y) for 2043; (Y) for 2044; (Y) for 2045; (Y) for 2046; (Y) for 2047; (Y) for 2048; (Y) for 2049; (Y) for 2050; (Y) for 2051; (Y) for 2052; (Y) for 2053; (Y) for 2054; (Y) for 2055; (Y) for 2056; (Y) for 2057; (Y) for 2058; (Y) for 2059; (Y) for 2060; (Y) for 2061; 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